

Austria ... Sch. 18	Belgium ... D. 2.850	Denmark ... Kr. 2.500	France ... F. 6.000	Germany ... DM 2.200	Greece ... Dr. 70	Hong Kong ... HK\$ 12	India ... Ru. 15	Italy ... Lit. 2.000	Japan ... ¥ 100	Malaysia ... M. 2.000	Netherlands ... G. 2.000	Norway ... Nkr. 100	Philippines ... P. 20	Portugal ... Esc. 200	Spain ... Ptas. 100	Sweden ... S. 2.000	Switzerland ... Sfr. 2.000	Taiwan ... NT 200	Thailand ... B. 2.000	UK ... £ 1.000	USA ... \$ 1.000	West Germany ... DM 2.200	Yugoslavia ... D. 2.000
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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,681

Monday July 22 1985

D 8523 B

Attitudes on EEC integration explored, Page 12

World news Business summary

Justice demand for dam victims

Italian President Francesco Cossiga demanded justice for victims of the Tevere dam disaster after leading mourners at a mass for the dead, now officially numbering 197. "There are responsibilities for this terrible tragedy," he said.

Spanish gas blast

Nine people died when an explosion believed to have been caused by a gas leak wrecked a crowded supermarket in the Andorran village of Pas de la Casa, close to the Spanish border with France.

Soviet-Israeli setback

Israeli Cabinet postponed a debate on relations with the Soviet Union because of fears that any renewal of ties had been jeopardised by disclosure of secret contacts between the two countries. Page 3

Austerity protest

Israel's 60,000 civil servants plan a two-hour strike today against the government's inflexibility over compensation for wage erosion and dismissals which form part of its austerity programme. Page 2

Israeli attack

Lebanese security sources said several people were killed and injured when Israeli helicopters and troops attacked the south Lebanese village of Ghabinka - the first such action for three months.

Textile talks

Western industrial nations and their Far East rivals in textile production begin talks tomorrow in Geneva aimed at renewing the controversial Multi-Fibre Arrangement.

Indian agitation

Rioting continued in the Indian state of Gujarat, leaving at least another 40 dead, despite a truce between authorities and groups protesting against reservation of jobs for underprivileged classes. Page 2

French N-fuel plan

France is seeking British support for the establishment of a joint nuclear fuel reprocessing plant in the Rhône Valley as an alternative to UK plans to build a reprocessing complex in Scotland. Page 2

Soviet ambassador

Soviet Communist Party propaganda chief Boris Stukalin was appointed ambassador to Hungary, a move seen by Western diplomats as demotion.

Abortion hotline

Spanish health authorities will open a telephone service to give women information on new abortion laws that they fear conservative doctors will withhold. El País newspaper reported.

Monsoon toll

Floods in the northern Punjab have killed at least 27 people, bringing the death toll in India's current monsoon season to 59.

Portuguese trial

More than 30 alleged members of the Portuguese urban guerrilla group FP-25 go on trial amid tight security precautions in Lisbon today after the shooting of a key witness. Page 2

Big winners

Bernard Hinault of France won the Tour de France cycle race for the fifth time - a feat equalled only by his countryman Jacques Anquetin and Belgian Eddy Merckx. Frenchman Alain Prost won the British motor racing grand prix in a McLaren, and Briton Sandy Lyle won the British Open Golf Championship.

U.S. steel group hit by all-out strike

WHEELING-PITTSBURGH, seventh highest U.S. steel company, was hit by a walk-out of all 8,200 workers at its nine plants who were protesting at the company's plans to cut their wages and benefits by up to 30 per cent.

Wheeling, which lost \$80m last year and \$25m in the first quarter of 1985, was last week given permission by a bankruptcy court to void its contract with the steelworkers' union. Page 2

CHINESE Government has approved proposals by engineers of Britain's National Coal Board for a large coal mining scheme, which might involve equipment orders estimated at \$20m (\$112m). Page 5

CHINA'S surging industrial growth is likely to be slowed in the rest of the year by curbs on credit and capital construction, according to the Economic Planning Commission. Industry grew three times faster than planned in the first half at 23.1 per cent.

FINLAND'S trade surplus in the first half of 1985 fell to FM 2.6bn (\$45m) compared with FM 3.8bn a year earlier.

PAKISTAN'S current-account deficit for the year to June was \$1.85bn, an increase of \$800m on 1983-84.

SINGAPORE'S economy is hogged down and faces difficulties, said first deputy premier Goh Chok Tong. Page 2

NIKKEI-DOW market average in Tokyo shed 9.12 to 12,797.86 after trading on Saturday.

FRANCE has finally announced terms under which it is to renegotiate the \$4bn credit raised in 1983 at the height of pressure on the franc. Page 15

COMPANIES

ELECTRA Investment Trust and Canover Investments of the UK have launched a plan to assemble up to £300m (\$420m) as a standby facility for use in large UK management buyouts. Page 5

UK OFFICE of Telecommunications is expected to call on British Telecom to place a temporary limit on its orders for AXE digital public telephone exchanges made by Thorn-Ericsson, a joint subsidiary of Thorn EMI and L. M. Ericsson of Sweden. Page 5

NATIONAL INTERGROUP, U.S. steel and financial services concern, reduced its losses in the second quarter to \$12.3m from \$17.9m in the first three months. Strong financial services profits helped to offset losses of \$6.8m and \$10.8m from aluminum operations and its half share in National Steel. Page 15

U.S. CABLE system operators won a key victory when an appeal court ruled out a federal requirement that they carry all local broadcasts watched by a significant number of people free of charge. Page 2

SOUTHERN LIFE Association, South Africa's fourth largest life insurer, will today offer 23 per cent of its shares to the public for R182m (\$85.5m) in the biggest initial public offering in the history of the Johannesburg Stock Exchange. Page 15

UPI, the struggling U.S. news agency, has filed an application in bankruptcy court to terminate its union contract, saying it must get wage and benefit cuts to help it find a buyer. Page 15

MULTIMEDIA, the U.S. TV station, cable television and newspaper group, agreed to pay \$112.88m for the 1.83m shares, or 9.75 per cent stake that Mr Jack Kent Cooke has acquired as part of his bid to win control of the group. Page 17

COMINCO, diversified Canadian zinc and fertilizer producer, suffered a \$28.8m (U.S.\$4.9m) loss in the first half, compared with a \$20.1m profit in the corresponding period a year earlier. Page 17

LOCKHEED, U.S. engineering and defence group, increased its second-quarter earnings by 11.5 per cent to \$87m, representing a slowdown in growth stemming from pressure on margins. Page 15

Police arrest 119 under S. African emergency law

THE PROCLAMATION of a state of emergency over large areas of the Transvaal and the Eastern Cape by President P. W. Botha of South Africa on Saturday night was swiftly followed yesterday by the arrest of 119 people under the extensive powers granted to the police and other law enforcement agencies, writes Anthony Robinson in Johannesburg.

At least 23 of those arrested were in a bus which was returning to Johannesburg from the funeral of four black community leaders in Cradock in the Eastern Cape. The bus was stopped by police en route and taken to the John Vorster Square security police headquarters in Johannesburg. Police also set up road blocks while troops moved into the East Rand township

of Kwathema yesterday morning. One of the consequences of the emergency is expected to be further limitations on press reporting on unrest in the townships, and Gen Johann Coetzee, chief of police, is due to meet local newspaper editors and foreign correspondents today to explain the new rules.

The state of emergency, which applies to 35 magisterial districts, mainly in the Transvaal and the Eastern Cape, covers the main gold mining areas of the East and West Rand and also Sasolburg, site of the country's first oil-from-coal plant, as well as the main focus of unrest in 11 months of violent protest which has cost more than 450 lives.

In his announcement, on radio and television on Saturday night, President Botha said the Government was no longer prepared to tolerate "acts of violence and thuggery mainly directed at the property and person of law-abiding black people which take the form of incitement, intimidation, arson, inhuman forms of assault and even murder."

The proclamation, made in terms of the Public Security Act of 1953, came into effect at midnight on Saturday and increases the already extensive powers of arrest and detention available under existing security and other legislation. It empowers any member of the security forces - the police, the army, the railway police and those in the prison service - to arrest any person without a warrant and to detain them for 14 days where they may be interrogated by any member of the force. Detention may be extended if

decreed by the Minister of Law and Order who may also impose any condition on those released from detention.

Access to detainees will only be possible on permission from the Minister of Justice or the Commissioner of Police, and no person will be entitled to any information about or received from detainees. Furthermore, any member of the security forces may search any person, premises or vehicle in the designated areas and may seize any article. It also becomes an offence to disclose without authorisation the identity of arrested people.

The maximum penalty for offences under the emergency regulations is imprisonment for 10 years or a fine of up to R20,000 (\$11,000).

Although only 36 magisterial districts are covered directly by the emergency regulations the law enforcement agencies have also been granted wide powers to extend the areas if necessary; to control the movement of people and traffic; to close any public or private place business or industry; to control essential services; impose curfews and control the gathering and distribution of news or any other action deemed necessary by the Commissioner of Police.

The granting of such wide powers of detention and arbitrary arrest and search has been widely condemned by anti-apartheid, church, and opposition groups inside South Africa.

Botha tightens the screw, Page 12

Record trade deficit a key factor in devaluation of lira

BY ALAN FRIEDMAN IN MILAN AND MAX WILKINSON IN LONDON

THE ITALIAN lira has been effectively devalued by 8 per cent against the seven other currencies in the European Monetary System (EMS) after its spectacular collapse on Friday.

The decision was taken on Saturday night at the end of an eight-hour meeting in Basel of top European monetary officials. Having seen the lira touch its lowest permitted point against the D-Mark on Friday and tumble by 20 per cent against the dollar, the European Monetary Committee, composed of senior EEC central bankers and monetary officials, agreed to a 2 per cent devaluation of the Italian currency and a 2 per cent revaluation of the other seven EMS currencies.

Dr Hans Tietmeyer, State Secretary at the West German Ministry of Finance, who chaired the Basel meeting, said that the lira devaluation reflected not just its fall on Friday but concern among all EMS members about Italy's record trade deficit.

That has been fuelled by faster growth in Italy than in other European countries which has sucked in imports. The trade deficit reached L14,554m (\$6m) in the first five months of the year - 75 per cent of last year's entire deficit of L19,000m.

The Italian currency crisis comes just as the five-party ruling coalition of Sig Bettino Craxi is negotiating a programme designed to renew the Government's mandate for the next 12 months. Among key issues under discussion this past week have been the economy and the sharing of power in Italy's state

The new central parity rates for currencies in the European Currency Unit (Ecu), expressed in terms of the national currency per Ecu, are (former figure in brackets):

Irish punt	0.724578 (0.72569)
French franc	6.5455 (6.5545)
Dutch guilder	2.20371 (2.20371)
D-Mark	2.20371 (2.20371)
Belgian franc	44.8332 (44.8332)
Luc. franc	44.8332 (44.8332)
Italian lire	1936.27 (1936.27)
Dr. pound	0.556512 (0.556512)
Drachma	100.719 (100.719)

television network. The latest crisis and devaluation might have an impact on the important five party talks which resume today.

Since agreement on the devaluation within the EMS could only be secured by accompanying emergency measures, the Italian Government announced on Saturday a package issued in the form of a decree, designed to reduce the 1985 public sector budget deficit by L1,200,000m.

The 1985 total public-sector deficit is forecast to be around L1,000,000m. Among the revenue-generating and spending reduction measures, which will still need to be approved by Italy's parliament, is a proposal to shift the *scala mobile* wage indexation system from a quarterly to a twice-yearly review.

European officials have indicated that the Italian Treasury's suspension of dealings in the lira on Friday came as a bolt from the blue. Any discussion about devaluation in Rome appears not to have percolated far in the rest of Europe.

Saturday's talks in Basel centred on the manner in which the devaluation should be announced. Italian officials would have preferred a slightly more general realignment to disguise the plight of the lira.

There appears to have been some discussion whether the D-Mark might move up against all other currencies, but that was rejected quite quickly. The devaluation of part of the lira's devaluation as a revaluation of all other EMS currencies is regarded by officials as purely cosmetic.

Ministers had been standing by for a meeting yesterday if agreement could not be reached by their officials. But it is now clear that ministers had no wish to spend a weekend wrangling over a problem that is regarded as peripheral to the central parties of the EMS.

Italy's three leading trade unions - CGIL, CISL and UIL - signalled on Saturday their willingness to a six-month review of wage indexation. That in itself is striking as it follows last spring's bitter battle between Communist unions and the employers over controversial cuts in the *scala mobile* decreed by Prime Minister Craxi. His cuts were confirmed in a nationwide referendum last month.

Sig Craxi said at the weekend that "the Italian economy has an absolute need of a general consensus agreement. An autumn without agreement would represent a serious halt to our current cycle of growth."

Sig Giovanni Goria, the Treasury Minister, said yesterday that the background to the revaluation, Page 3

FRANCE and West Germany are expected to take steps towards reinforcing their security collaboration at an important summit meeting between President Francois Mitterrand and Chancellor Helmut Kohl at the end of August.

The fresh initiative is seen as giving further impetus to the project for European political union that the two countries tabled at the EEC summit in Milan last month and coincides with a virtual all-party shift in French defence thinking towards a more European defence policy.

At the same time, the French hope that closer Franco-German military co-operation will be accompanied by the West German ally to the French position in the dispute over the European fighter aircraft - a dispute in which France currently finds itself isolated.

Reflecting the emphasis to be given to security questions at the summit, Chancellor Kohl has already said in public that he intends to question President Mitterrand at the summit on the use of French tactical nuclear weapons in the event of a European conflict - a consultation that would have by no means been agreed practice with several of their predecessors.

While formally distancing themselves from the Socialist Party's declaration on the use of the French deterrent, the officials concede that there has been an evolution in French defence thinking towards using the deterrent to defend France's "vital interests" in the full sense of that term.

They find nothing to quarrel with in the recent statement by former President Valéry Giscard d'Estaing - in itself an advance on the position he took while President - that "the invasion of West Germany would gravely put at risk the ultimate security of France."

Senior French officials say the strengthening of defence ties might be marked by the French defining more clearly the role they intend for the newly created, 47,000-strong Rapid Deployment Force - thus spelling out more clearly their readiness to come to West Germany's

BY DAVID HOUSEGO IN PARIS

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Continued on Page 14

Split decision from Opec likely on change in price differentials

BY RICHARD JOHNS IN GENEVA

A MEETING of oil ministers from the Organisation of Petroleum Exporting Countries today promises to be a stormy one with the issue of price differentials likely to dominate early discussions.

Last night it looked unlikely that the ministers would be able to reassess the world oil market about Opec's ability to prevent further erosion of crude oil prices.

Venezuela is likely to go its own way in matching Mexico's price cuts announced 10 days ago - Mexico is not an Opec member. But Algeria, Libya and Iran still adamantly oppose any reductions. They were the members that dissociated themselves with the majority agreement adjusting price differentials six months ago.

Sheikh Ahmed Zaki Yamani, Saudi Arabia's Oil Minister, confirmed yesterday evening that his Government was seeking another change and any adjustment would involve lower price for heavier crudes.

But if there is no revision agreed on decreasing the prices, instead of raising rates as happened in January, Saudi Arabia is understood to be reluctant to take any unilateral action in the near future aimed at boosting its flagging output. It is

currently running at little more than 2m barrels a day (b/d) of which 800,000 b/d is absorbed by domestic consumption.

Riyadh appears now to be prepared not to press to extreme its demand for a guaranteed minimum quota for a couple of months at least. That would give other members a chance to fulfil their renewed commitments to price and production discipline made a fortnight ago, as well as to obtain agreement on a readjustment of differentials.

Saudi Arabia is involved in close consultations with four U.S. majors which are its former concessionaires and traditionally its main customers as well as partners in its main producing operations.

Last Wednesday, two senior officials are understood to have met near Lausanne senior representatives of the companies that are partners in the operations of the Arabian American Oil Company. Their liftings have recently dropped to 500,000 b/d as a result of strict Saudi adherence to official selling rates at a time when most other Opec oil is being sold at a discount.

Mr John Kelherer, chairman of Aramco, is believed to be staying in Geneva awaiting the outcome of the meeting.

Iraq's claim for a higher output quota looked as though it would destroy any serious chance of the proposal, debated in Vienna earlier this month, for a 7 per cent cut in the present collective ceiling of 16m b/d and pro rata reductions in individual members' shares. Worse, it might prove a totally disruptive issue at the meeting.

The demand was reaffirmed by Mr Qasim Taki, Iraqi Minister of Oil, before his departure for Baghdad.

Iraq wants Opec to concede it a quota of 1.6m b/d compared with 1.2m b/d now agreed, but has said that it will try to increase exports by the extra amount anyway, when it obtains extra export capacity through the spur line, scheduled to come on stream in September, linked to the Saudi transpennsular pipeline to Yanbu.

Dr Mohammed Gharazi, Iran's Oil Minister, commented: "Any country that calls for an increase in its production quota is stabbing Opec from inside the organisation."

He said his country was in favour of a 7 per cent cut in the ceiling and quotas. So, too, did Dr Mana al Otaibi, chief delegate for the United Arab Emirates.

Saudi threat, Page 2

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OVERSEAS NEWS

A squabbling Opec meets today in yet another attempt to co-ordinate policy on oil prices and production, writes Richard Johns in Geneva

Saudi Arabia threatens to turn the oil price slide into a cascade

IN THE midst of its bleakest ever summer of discontent, the Organisation of Petroleum Exporting Countries (Opec) meets again today in Geneva, badly co-ordinated and squabbling as it struggles to resist the seemingly remorseless weight of market pressures rolling prices further downwards. Opec members now face the prospect of Saudi Arabia, whose strength has been mainly responsible for preventing a far more rapid descent, losing its grip.

Saudi Arabia has given notice that its patience is running out and it is not prepared to let its output fall further. Saudi Arabia, almost alone among Opec members, has been charging what it should for its oil under the pact on production and price. It accounts for most of the 70 to 75 per cent of collective output being sold at official prices, while the rest is being supplied at \$1 to \$3 below them.

Saudi output has sunk to little more than 2m barrels a day (b/d). That is less than half the 4.35m b/d it considers its quota under the present

Opec accord, compared with the 3.8m b/d it could expect if collective production of 14m b/d—which has now probably fallen below that level—were divided pro rata in line with agreed quotas. About 800,000 b/d is consumed on the domestic market at no profit to the state. Another 175,000 b/d is being sold on behalf of Iraq as a form of long-term financial aid, while some developing countries are receiving some free supplies.

Revenue-earning export sales are probably now little more than 1m b/d, barely enough to earn \$10bn in a full year.

All the other members are well aware that if Saudi Arabia fulfils its threat—as yet only heavily implied—to raise its output by lowering its selling rates, the slide in prices, temporarily arrested by uncertainty, could become a cascade. At the last, inconclusive Opec meeting in Vienna a fortnight ago, the Saudis, led by Zaki Yamani, the Oil Minister, said the kingdom was no longer prepared to be the "swing producer" absorbing any slack

in demand for Opec oil. The turnaround in Saudi Arabia's fortunes and policy has been remarkable. From 1979 to 1981, it consistently produced at more than 8m b/d as it sought to moderate price rises by charging less than other members, consequently raising its share of the Opec total from about 30 per cent to 45 per cent and building up its foreign assets to \$160bn (\$220bn). Even then, when per barrel revenues were much higher and collective output half as much again as it is now, there was resentment about Saudi Arabia's disproportionate share.

At the Vienna meeting, there was renewed commitment to discipline on prices and output, but overwhelming opposition to the lower rates for heavy crudes, which might have helped Saudi Arabia to increase its sales. A Kuwaiti proposal for a 7 per cent cut in the Opec ceiling for the third quarter of 1985, with a rise of similar magnitude in the fourth, seemed acceptable to a bare majority of seven, but insisted demands by Iraq

and, to a lesser extent, Ecuador, were largely responsible for blocking it. Another was Algeria's rejection, for which no explanation was apparently given.

Algeria could have been expressing its opposition to the privileged position which Saudi Arabia has achieved in Opec. That is a matter of history, as well as muscle deriving from its oil reserves, but on grounds of fairness it would be difficult to justify. For most Opec members, it is difficult to acquiesce in an arrangement whereby the average Saudi, already with a far higher per capita income, is accorded at least 55 times as much oil as an Indonesian, 30 times as much as a Nigerian and 15 times as much as an Algerian. The majority feel that the kingdom, having profited highly from the fat years and having piled up enormous cash reserves, can and should tighten its belt for the sake of other members, not least those most heavily subsidised.

In reality, it is not that easy to contract a stomach distended by years of over-consumption.

As it is, the Saudi Government did succeed in cutting its budgetary spending from the equivalent of \$54.22bn in 1981-1982 to \$50.48bn in the fiscal year 1984-85 (ending March 21).

Over those years, revenues fell more than half, from \$108.85bn to \$57.41bn.

In the process, the Saudi Government withdrew \$22bn from its foreign assets. That apart, the cost of retrenchment has been negligible. Despite the growth of the private sector, state spending in Saudi Arabia remains the prime generator of economic activity, with the public sector still accounting for half of gross fixed capital investment and the oil sector about another 15 per cent. Gross domestic product probably fell in 1984-85 to the lowest level in real terms since 1978-79, as a result of lower oil production and prices.

Government payment delays have been endemic and fluctuating since the mid-1970s. They were not responsible for any of the well-publicised troubles of some of the bigger

contractors at the end of last year, but over-all it is estimated that as many as 1,500 enterprises may have stopped trading in the past two years. In Saudi Arabia, where the religious courts regard past payments of interest as repayment of principal, bankruptcy is very much a relative term, in a fact which strikes horror into the hearts of bankers.

The 1985-86 budget projects an 8 per cent reduction in spending together with what now looks a hopelessly optimistic 16 per cent increase in revenue. According to Mr Hisham Nazer, the Minister of Planning, the estimate was based on oil production of 3.85m b/d, although some analysts believe a larger output would be required. The budget was balanced at \$5.48bn, indicating a determination not to draw on reserves this year.

In March, Mr Abdel-Aziz Zamal, the Minister of Industry and Electricity, put the value of the kingdom's foreign assets at \$120bn. According to one senior Gulf official, the Government was drawing them down



Sheikh Yamani: Kingdom no longer prepared to be the "swing producer" absorbing any slack in demand for Opec oil.

Peres moves to stem Cabinet leaks on closer Soviet ties

BY DAVID LENNON IN TEL AVIV

MR SHIMON PERES, the Israeli Prime Minister, blocked any discussion by the Cabinet about moves to improve relations with the Soviet Union.

One minister asked about a meeting in Paris last week between the Israeli and Soviet ambassadors to France, but the Premier decided to prevent any discussion in order to lessen the risk of leaks on a politically sensitive issue.

Officials in Jerusalem are concerned that the publicity surrounding the report of the meeting by Mr Avraham Sofer, the Israeli ambassador in Paris, may harm prospects for rebuilding relations that were broken off by Moscow at the time of the Israeli-Arab war of 1967.

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Trial begins of alleged Portuguese terrorists

BY DIANA SMITH IN LISBON

THE TRIAL begins today in a reinforced courtroom outside Lisbon of Lt-Col Otelo Saraiva de Carvalho, a 47-year-old former Portuguese military officer, accused of being a member of a terrorist group, the FP-25 (People's Forces of April 25).

Lt-Col Saraiva de Carvalho, widely remembered as "Otelo", prime mover of the bloodless military coup of April 25 1974 that overthrew Portugal's 48-year-old right-wing dictatorship, is accused of being a founder of FP-25.

The group has been linked with a series of violent bank robberies, assassinations of businessmen and bombing attacks in 1980.

A suspect who had agreed to testify for the prosecution was shot and wounded on Friday.

Police said Sr Jose Manuel Rosa Barradas, 34, a so-called

repentant member of the guerrilla group, was shot in a street near his home at Costa da Caparica, a coastal resort area near Lisbon.

The authorities are reported to have found incriminating documents at Lt-Col Saraiva de Carvalho's home near Lisbon, that justified his arrest in June 1984, soon after the first FP-25 suspects were rounded up. More suspects were arrested and questioned subsequently.

Many international organisations have pressed for the release of the charismatic left-wing officer since he was arrested a year ago but the authorities have held firm.

After the 1974 coup, Lt-Col Saraiva de Carvalho veered sharply leftward from his former liberal stance.

Resolutions at the summit call on African governments to double their budgetary allocations to farming from around 10 per cent now to 25 per cent over the next five years. This will mean fewer resources for other sectors, except perhaps defence.

Beyond the problems of 150m hungry mouths and \$170bn (\$122bn) of debt, African Governments must also solve their chronic security problems of rebel wars, lawlessness and attacks from South Africa if they are to reach the plan's

West Bank town planned to sack Arabs

MR SHIMON PERES, Israel's Prime Minister, yesterday ordered his attorney-general to investigate plans by a Jewish town in the occupied West Bank to dispossess its Arab workers, Reuters reports from Jerusalem.

The Kiryat Arba Town Council agreed to displace the Arabs in a condition agreement with Meir Kahane's anti-Arab Kach Party after it significantly gained strength in recent town elections.

The Prime Minister asked Mr Yitzhak Zamir, Attorney-General, to report on the agreement's legality.

Mr Amnon Rubinstein, Communications Minister, urged the Cabinet to consider disbanding the town Council for discrimination.

Kiryat Arba is a stronghold of extreme Jewish nationalism overlooking Hebron, which is inhabited mostly by Palestinians.

Mr Shimon Peres, leader of the town council, said Kiryat Arba employed about nine Arabs. He told reporters that government austerity was forcing the town to cut back on staff, and council members had agreed that Jewish employees would be preferred to Arabs.

Israel has no law specifically outlawing racism, although parliament is considering enacting one.

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Wheeling-Pittsburgh steel workers strike

BY WILLIAM HALL IN NEW YORK

THE FIRST big strike in the U.S. steel industry in 27 years began early yesterday when 8,200 workers at the nine plants of Wheeling-Pittsburgh Steel Corporation, the country's seventh biggest producer, walked out.

The strike, over the company's plans to cut workers' wages and benefits by up to 30 per cent, comes at a critical time for the company which filed for protection under Chapter XI of the U.S. bankruptcy code last April.

It has warned that a strike would mean "the quick and certain death" of Wheeling-Pittsburgh. The company has

invested heavily in new equipment and is said to have some of the most efficient steel plants in the industry.

However, it faces high operating costs and has been hit by the strength of the U.S. dollar, which led to heavy imports from foreign steel producers.

In common with the rest of the industry, it is being squeezed by heavily unionised and organised labour, which has been hit by its future survival depends on clawing back some of the generous wage concessions and benefits to which it agreed in the heyday of the U.S. steel industry.

The strike comes at a critical time for the whole industry and

is being watched closely by the management and unions of other steel producers since it will have an important bearing on future wage negotiations.

Wheeling-Pittsburgh's nine plants stretch across Ohio, West Virginia and Pennsylvania and if the company is forced to close its facilities permanently, it could affect the strength of the union in future bargaining sessions. The union has a \$200m (£143.8m) strike fund and appears prepared for a long strike.

Many of the U.S. steel majors face serious financial problems and are pressing for more wage concessions from the United

Steel Workers of America, which used to be one of the most powerful unions and whose members are amongst the best paid of the country's blue-collar workforce.

Last week the Pittsburgh-based Wheeling-Pittsburgh won court permission to abrogate its wage contract with the steel workers and impose a new wage and benefit package worth \$17.50 per hour. The average hourly wage would be \$8.10 under the proposed deal, and the company is also insisting on changes in work rules which would eliminate many of the benefits which have become standard in the industry.

But soon after Mr Chaudhury's announcement, violence flared again when leaders of the agitation disagreed among themselves on the agreement with the Government. At least one powerful organisation has announced that the agitation will continue.

The agitation is being fuelled also by Government employees who have been on strike and whose call for a general strike today is expected to lead to more violence.

The disturbances are being dealt with by the state police. The army was withdrawn from the riot-affected towns of Gujarat last week in a futile bid to bring peace to the state.

The continuing violence in Gujarat is proving a serious embarrassment to Prime Minister Rajiv Gandhi even though constitutionally law and order is a state matter in India's federal structure.

Pressure is growing on Mr Gandhi to intervene directly. Gujarat is one of the many states ruled by Mr Gandhi's Congress party and the disturbances could be used by the opposition against him.

Analysis of Air India black box ends

SCIENTISTS finished analysing "black box" recorders from the Air India airliner which crashed near Ireland last month as a former Indian air force chief said yesterday he believed an explosion might have been responsible. Heater

Mr John Young, a specialist from the U.S. National Transportation Safety Board, said U.S. experts had completed collection and analysis of information from cockpit voice and flight data recorder tapes in Bombay.

"More often than not we get questions from these boxes rather than answers. But we have got the right questions to ask here we go about working on the wreckage," Mr Young said.

At least five U.S. aviation experts helping Indian scientists study the recorders have said it is too early to draw any conclusion in an inquiry which could take months.

But former Air Chief Marshal Arjan Singh said in Delhi he personally believed an explosion might have ripped open the jet, sending it plunging into the sea.

FINANCIAL TIMES, U.S. 100640, published daily except Sundays and holidays. U.S. subscription rates \$210 per annum. Second class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 10 East 57th Street, New York, N.Y. 10022.

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Reagan appoints budget director

BY STEWART FLEMING IN WASHINGTON

PRESIDENT Ronald Reagan, White House Chief of Staff, is taking the opportunity presented by Mr Stockman's departure to appoint somebody who will stick closely to the White House line on budget policy. Mr Reagan has been said to be operating a "search committee of one" in seeking Mr Stockman's replacement.

The appointment comes amid fears that the budget process has reached an impasse which could threaten many of the deficit reduction plans which the Senate approved.

The impasse drew harsh criticism from Mr Reagan on Thursday when he called the Congressional decision to break

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U.S. eases rules on cable TV

BY PAUL TAYLOR IN NEW YORK

U.S. CABLE television system operators and programmers have won another key round in their battle to liberalise federal rules on local government restrictions on the industry.

A federal appeals court struck down a federal government requirement that cable system operators carry free of charge all locally broadcast stations watched by a significant number of people.

The court ruled that the Federal Communications Commission (FCC) requirements, in place since the mid-1960s, "fundamentally at odds with the first amendment."

The case, which could now go to the Supreme Court, was

brought by Turner Broadcasting and Quincy Cable System. Cable system operators argued that the regulations infringed on their constitutional rights to decide what stations to carry and cable television programmers argued that the rules sometimes resulted in them being "trapped out" of markets because all or most of the available cable channels were taken by local broadcasters.

The ruling is the latest in a series of victories for the U.S. cable industry which has been lobbying hard, and so far successfully, for an easing in federal and local rules.

In particular it could help cable television programmers, such as Turner Broadcasting, and pay-television premium channels like Time Inc.'s Home Box Office move channels, who try to persuade local cable operators to offer their stations.

However, the court's ruling is seen as a serious setback for local television stations—particularly those not affiliated to a large network or those that cater for a relatively small audience. The federal rules were originally framed to protect local broadcasters from competition from cable systems.

The FCC and local broadcasters have 45 days to decide whether to appeal.

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The agenda for this week's meeting will be essentially the same, but it is hoped that this time a formula can be worked out to accommodate discussion of Nicaragua's additional security concerns.

Nicaragua was the only Central American country to agree to the first draft of the Contadora treaty last September. Since then following the objections of the pro-U.S. caucus in the region, discussions have centred on revising the treaty and strengthening its security provisions.

Finland, Costa Rica and El Salvador, the U.S.'s principle allies in the region, said the purpose of the meeting was to discuss the security questions,

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Contadora peace bid resumes

BY DAVID GARDNER IN MEXICO CITY

THE CONTADORA Group's efforts to bring a negotiated peace to Central America resumed yesterday with a meeting at foreign minister level in Panama designed to relaunch the peace process after the failure of a similar meeting last month.

The effort was expected to be boosted by the establishment of a support group—probably made up of Argentina, Uruguay and Peru—to back the mediation efforts of the original Contadora nations, Mexico, Colombia, Panama and Venezuela.

Senior Mexican officials said

recently that there was growing concern in Latin America at the slide towards confrontation in Central America.

Last month's meeting of Contadora deputy foreign ministers broke up in disarray after Nicaragua insisted on recently renewed U.S. aid for the Contras, guerrillas fighting to topple the Sandinistas and Washington's trade embargo against it be placed on the agenda.

Honduras, Costa Rica and El Salvador, the U.S.'s principle allies in the region, said the purpose of the meeting was to discuss the security questions,

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OVERSEAS NEWS

LIRA DEVALUATION IN EMS REALIGNMENT

The events of 'Black Friday' that led Italy's Treasury to crisis point

BY ALAN FRIEDMAN IN MILAN

IN ITALY people are already referring to the events of Friday, July 19, 1985, as "Black Friday." Italy was hit by a twin disaster, one financial, the other human: the fall of the lira against the dollar caused an embarrassing currency crisis but the collapse of a dam in the Italian Dolomites killed at least 200 holiday makers.

Prime Minister Bettino Craxi has ordered investigations into both disasters. However, it is already possible to partly reconstruct the bizarre series of events which led the Italian treasury to shut down the Milan

foreign exchange market on Friday after the collapse of the Italian currency, as a prelude to Saturday's 8 per cent devaluation against other currencies in the European Monetary System.

It appears that late on Thursday evening Sig Craxi had talks with Giovanni Goria, the Treasury Minister, and Carlo Ciampi, the Governor of the Bank of Italy, about a devaluation.

The moment seemed propitious: the currency markets were calm, the Italian trade balance, fuelled by strong Italian import demands, had suffered a cumulative deficit in the first five months of this

year of L14,544bn (£5.7bn) — 75 per cent of last year's record trade deficit.

Meanwhile, the five-party coalition Craxi Government was midway through discussions to set out an economic programme for the next 12 months, including ways to cut the country's runaway public sector budget deficit, forecast for L100,000bn (£39bn) this year.

Then, on Friday, with the impending lira devaluation still a Government secret, all hell broke loose: ENI, the state energy group, informed the Bank of Italy just after midnight that it was going into the

foreign exchange market to purchase \$125m (£90m), needed to make a debt repayment.

The central bank, obviously aware of its own plans for a devaluation, advised ENI not to go ahead with the operation, but it was too late.

ENI had already given the buying order to one of Italy's biggest banks, the Istituto San Paolo di Torino. San Paolo went into the market in Milan, buying more than \$70m even though its bigger market counterparts were unable to supply the dollars; more dollars were purchased in Rome.

By 1.30 on Friday afternoon the lira was crashing by nearly 20 per cent against the dollar, having sunk from L1,839 to the dollar to L2,200.

The Italian treasury, informed of the lira's collapse, and also aware that the currency had moved to the absolute limit against the Deutschmark acceptable under the EMS (L1,664.70 against the mark), took the extreme measure of closing down the foreign exchange market. At this point the eyes of the entire financial world focused on Italy and its currency crisis.

This chain of events has already provoked a typically

Italian exchange of accusations. It has been further confused by suggestions from the Milan market that while the ENI dollar operation was an important cause of the crisis, there had also been leaks on Friday morning of the impending devaluation which caused heavy dollar speculation in Rome.

It has even been suggested that the Italian Government might have stage-managed the entire affair to pressure its EMS partners to proceed with realignment.

Sig Goria has been sharply critical of ENI, even before the full facts are clear. "ENI did not have any

urgent need to acquire U.S.\$125m on Friday because its debt repayment was not maturing until July 24," he said. This was why the Bank of Italy itself declined to provide the dollars to ENI.

The Bank of Italy did not intervene in the markets in defence of the lira. Why? It was argued by a senior government official that the central bank did not wish to prejudice the impending devaluation.

Sig Franco Reviglio, ENI chairman, has written to Mr Craxi defending himself by saying that the lira collapsed because of an incredible lack

of contact between the Bank of Italy and ENI. ENI denies that its activity was speculative.

San Paolo di Torino described its role as "normal routine and told the Financial Times at the weekend that it went on buying dollars even as the exchange rate shifted dramatically "because we buy on the market at the market price."

Mr Craxi is said to be highly irate with both ENI, and the Bank of Italy, but the only thing clear so far is that for the Italian Government, something went terribly wrong on "Black Friday."

Government pays for its months of scorn

BY JAMES BUXTON IN ROME

IN ONE tormented long weekend, beginning with the crash of the lira, which a leading Italian newspaper said made Rome the laughing stock of the European foreign exchange markets, Italian politicians have humbly paid the price for disdaining economic problems during the past six months.

Ways of checking the momentum of the wage indexation system and measures to trim the public sector deficit have been idly discussed for months. But only last week officials of the Bank of Italy were despairing of the Government finding the will to implement them, at least before the autumn.

Because they were postponed for so long the measures had to accompany rather than precede the currency devaluation that sooner or later would have been necessary because of the wide inflation rate differential between Italy and its EMS partners.

The "storm clouds" as Dr Carlo Azeglio Ciampi, Governor of the Bank of Italy called them in his annual report at the end of May, have been gathering for some time. In one sense the Italian economy has this year been the victim of its own success. It is growing for the second year running at about 2.5 per cent—nothing spectacular by past standards but faster than its two main trading

partners, West Germany and France.

As a result, Italy has been sucking in imports at a voracious rate, and failing to export enough—so that the trade deficit in the first five months of this year was at L14,500bn (£5.5bn), already three quarters of the deficit for the whole of last year.

The balance of payments deficit for the same period reached L8,000bn, double the figure for the same period of 1984, and well in advance of official forecasts. Before the devaluation the authorities expected a current account deficit of between \$6-7bn (£2bn) for the year. Last year the current account deficit was about \$3.5bn.

With the domestic economy more buoyant than export markets it was not surprising that Italian companies found it more remunerative to sell at home rather than abroad. In European export markets the going was especially heavy because the lira was overvalued.

The last realignment in the EMS was in March 1983 and though the annual Italian inflation rate had fallen 7 percentage points since then (last year it finally dropped below 10 per cent for the first time in 11 years) there is still a big inflation differential with other EMS members that has

ITALIAN ECONOMY TABLE			
	1983	1984	1985*
GDP growth %	-0.4	2.6	2.25
Current account balance (\$m)	602	-3,140	-4,500
Consumer prices % increase	16.5	8.25	7.5
Public borrowing requirement as % of GDP	16.4	15.4	—

* Forecasts
Source: OECD, June 1985

not been reflected in the exchange rate.

Although over the past few weeks the lira was allowed to drift down 2 per cent to the lower end of Italy's specially wide fluctuation band of 6 per cent against its central rate in the EMS, the Central Bank's aim was still to keep the currency relatively strong in order to hold down the price of imports as Italy tried to cut its inflation rate. It also wanted to help companies import capital goods relatively cheaply.

But the policy could not be sustained if politicians did nothing to keep down labour costs and make Italy more competitive by reducing the inflation rate, which has been stationary since last autumn at just under 9 per cent.

This meant cutting the government deficit which, at 15.5 per cent of gross domestic product is nearly three times the EEC average, and was heading this year to reach

L111,000bn compared with the original target of L86,800bn. Some form of incomes policy was also needed.

The two-year-old Government of Sig Bettino Craxi acknowledged these problems but did virtually nothing about them to avoid offending voters on the eve of important local elections in May — which Sig Craxi called a mid term test of the Government — and a referendum on last year's temporary block on wage indexation and the election of a new President.

Only with the election over and a Government success won in the referendum, and with President Francesco Cossiga installed, could serious discussions on new economic measures finally begin.

The pace, however, scarcely matched the urgency of the situation. The Bank of Italy and Sig Giovanni Goria, the Treasury Minister, concluded last week that a devaluation was essential and that it was

pointless to spend the country's foreign exchange reserves postponing it.

The measures adopted by the Government on Saturday should only be a first step, although they should immediately make Italian exports more competitive and trim internal demand.

The shifting of a triggering of the Scala Mobile indexation mechanism from three to six months—accepted in principle several months ago by all the unions—needs to be followed by a thorough reform of indexation pay structure and labour laws.

The L600bn worth of measures to reduce the deficit, still to be ratified by parliament, ought to be followed by permanent spending cuts. With no major election on the horizon for three years, the Government has an unprecedented chance to make real reforms.

An obvious target is the pension system. This is simply far more generous than the country can afford and is appallingly badly run.

But MPs of virtually every political colour recoil at the thought of trimming the benefits INPS hands out, especially to the 5m disability pensioners.

Sig Craxi says he intends to tackle these issues. The question is whether he will win the support of his coalition partners, for the necessary grilling parliamentary battle.

Comic operatics take European monetary officials by surprise

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

THE DEVALUATION of the lira this weekend in an atmosphere near to comic opera, seems to have taken monetary officials in the other main capitals by surprise.

It follows a period of almost unnatural calm in the European Monetary System, with all currencies, including the lira, remaining in an orderly manner well within their permitted bands.

The eight currencies subject to the Exchange Rate Mechanism are allowed to diverge by up to 2½ per cent from a central rate measure in the European Currency Unit. However, the lira is allowed 6 per cent of latitude because of Italy's historic difficulty in controlling its finances.

The central rates for all currencies were last fixed on March 20, 1983 after a turbulent four years in which currencies were realigned seven times.

Since 1983, the currencies in the ERM have enjoyed remarkable stability within the system. The traditionally weaker currencies, including the franc and the lira, have been bolstered by relatively high interest rates and by signs that the authorities have been controlling inflation.

French inflation, for example,

is now running at an annual rate of 6.5 per cent, just below that in the UK, whereas in 1983, French inflation, at 9.5 per cent, was about twice the UK rate.

For both France and Italy, the advantages of lower exchange rates in helping exports have been seen to be less important than the need to contain import prices in the fight against inflation.

In February, for example, the Bank of Italy made it clear that it had no sympathy with some businessmen's calls for devaluation after a period in which the lira had performed strongly within the EMS.

Most anxiety has therefore been directed to the effects that the greater movements of the dollar on EMS parties. As the dollar weakened it was thought that speculative funds might flow into the D-mark and force it towards the upper range limit.

So far this has not happened, largely because of the British authorities' policy of maintaining high interest rates while they remain uncertain about domestic monetary conditions and the possible effects of a weakening oil price.

Quentin Peel adds from Brussels: The realignment of

currencies within the exchange rate mechanism of the EMS will not have any immediate effect on EEC farm prices, European Commission officials said yesterday.

Effective price changes will only occur once the green rates of the respective currencies are changed at the initiative of the Commission—something which normally only happens once a year, usually at the farm price fixing in the spring.

However, the realignment will certainly require a change in the monetary compensation amount (MCA) for Italy (border tax used to protect farmers from currency fluctuations), assuming that the lira depreciates on foreign exchange markets this week.

Under rules agreed last year, only negative adjustments are made in MCAs to compensate for currency realignments. With all the other currencies revaluing apart from the lira, the Italian MCA will take the full brunt of the change.

The change in the Italian MCA will depend on the performance of the lira on the foreign exchange markets, for it is recalculated weekly like the pound sterling and the Greek drachma.



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WORLD TRADE NEWS

International backing given to code on ship registration

BY OUR GENEVA CORRESPONDENT

THE BASIC elements of an international agreement, which could eventually have important implications for ship owners using flags of convenience, have been accepted by delegations from some 100 countries.

The agreement defines the conditions on ownership, management and manning which countries, including those with "open registries" such as Liberia and Panama, should apply to ships sailing under their flags.

It could, however, be a decade or more before the agreement is ratified and its impact is felt. The source of the agreement is the UN conference on conditions for the registration of ships which completed its third session here on Friday. It was attended by delegations from the big shipowning nations, the developing countries and the socialist states.

Mr Lamine Fadika, the Ivory Coast Marine Minister who chaired the conference, said the document agreed marked a "point of no-return" in shipping history. It defined the "genuine link" between a ship and the flag it flies, for which several UN conferences had called.

The principles represent compromises between the big shipowning countries and the developing countries who have been pressing for action against flags of convenience, which they see as impeding their efforts to

expand their own merchant fleets.

The wording of the agreement is in many cases loose. On ownership, it says flag states should include "appropriate provisions" for participation by their nationals as owners of the ships flying their flags. The level of participation should be sufficient to permit the state to exercise effectively its jurisdiction and control over the ships.

Under conditions governing management, the flag state would have to ensure that the shipowning company is established or has its principal place of business within its territory. However, failing that, the state should at least ensure the existence of a representative or "management person" who is a national of, or domiciled in, the state.

The manning clauses would require that a "satisfactory part" of the complement of officers and crew are nationals. The conference will hold a fourth session early next year to decide whether the document should take the form of a convention to be ratified by governments or be issued only as a recommendatory instrument.

The potential importance of the agreement can be gauged from the fact that last year 202m deadweight tons, or 30 per cent of the world's shipping, sailed under the flags of open register countries.

SHIPPING REPORT Grain rates from U.S. reach seven year low

By Andrew Fisher, Shipping Correspondent

"MIRACLES would help," said London shipbroker Denholm Coates in a useful comment on the lifeless state of the dry cargo markets. Grain rates from the U.S. last week were at their lowest for over seven years and shipowners are laying up more vessels.

Tanker markets were also slack, as general confusion about the world oil pricing structure combined with the summer holiday season in the northern hemisphere. There was some rise in activity from most loading areas, but the tonnage surplus is still high.

Denholm said that bulk carrier vessels in the small to medium-size ranges (20,000-75,000 tons) were being laid up by owners in berths around the eastern Mediterranean. Others were simply waiting around for cargo. But the lay-up solution would take time to have an effect. Hence the call for miracles. The grain rate from the U.S. Gulf to continental Europe was \$6 (\$4.3) a ton against \$10 or so late last year. To Japan, it was only \$11 compared with \$16 in November.

Galbraith's, another UK broker, said the serious over-tonnage on the Pacific and Atlantic was unlikely to be reversed in the next few months. Last week, it said, "gloom continued to pervade the market."

Greece signs deal to buy 40 Mirages

Greece has signed a contract to buy 40 French Mirage-2000 fighter aircraft to modernise its air force, Reuters reports from Athens. Greek Air Force chief Lieutenant-General Dimitris Apostolakis, who signed the deal with the company Dassault, said the first aircraft would be ready for delivery in 1988.

He said parts of the aircraft would be manufactured in Greece under a co-production programme. The cost of the contract has not been disclosed.

U.S. moves to end Gatt stalemate

BY WILLIAM DUFFLOR IN GENEVA

THE U.S. attempt to organise new international trade negotiations has been blocked. Furthermore, the very survival of the General Agreement on Tariffs and Trade (Gatt) is being questioned after the failure of its council last week to agree on the convening of a meeting of senior officials to prepare for new negotiations.

The U.S. will this week take the unprecedented step of asking Sr Felipe Jaramillo, the Gatt chairman, to call a special session of the organisation's 90 contracting parties to discuss the issue. This is being billed as a make or break effort to get the new round of trade talks going.

Simultaneously this week trade ministers from some 60 developing countries will be meeting in New Delhi at a meeting convened by India, one of the firmest opponents of the trade talks, at least in the guise envisaged by the U.S.

The purpose of the Delhi meeting is to formulate plans for a general system of trade preferences between developing countries but the latest American effort to push Gatt

into a decision will undoubtedly generate lively exchanges outside the conference.

The industrialised countries underestimated before last week's Gatt council meeting the resistance of a hard core of developing countries, headed by Brazil and India, to the proposition that a new round must encompass trade in services.

India has consistently argued that services do not fall within the competence of Gatt. Brazil has been the protagonist of "delinking," advocating some form of twin-track programme, possibly even under Gatt aegis, that would keep talks on services separate from negotiations to reinforce world trading in goods.

Brazil and its allies have sought guarantees on delinking from the industrialised countries before they agree to a meeting to prepare the negotiations.

The U.S., the European Economic Community and Japan have maintained that no pre-conditions are needed, since all questions about the manner and content of trade

talks can be handled at the preparatory meeting.

The problem is that real differences over the purpose of the new round have degenerated into a squabble over procedure within Gatt.

American exasperation over the stalemate centres principally on Brazil. Mr Peter Murphy, the U.S. Ambassador, rallied against the "silly procedural manoeuvres" which at the end of a session lasting until 4.30 on Friday morning prevented the Gatt council from reaching a consensus. The manoeuvres were masterminded by Dr Paulo Nogueira Batista, the Brazilian ambassador.

In the view of the industrialised nations a few countries, which together account for only a very small part of world trade, are blocking the way to trade negotiations, in which the large majority of Gatt members, including many developing countries, have declared interest.

The U.S. is trying, with the support of the EEC, Japan and Canada, to bypass the procedural obstacle by calling a special session of Gatt.

It may well obtain the backing of the 46 Gatt members it needs to force through a special session. Only 23 developing countries signed a paper last month spelling out their objections to, and reservations about, the new trade talks.

But more developing countries than the hard core around Brazil and India will have doubts about breaking with the Gatt tradition of moving through consensus.

Brazil's attitude remains an enigma. It appears to attribute Machiavellian intentions to the Reagan Administration in Washington, arguing that the U.S. is trying to open up world markets for its bankers, insurers and other purveyors of services at the same time as it hinders through protectionist measures exports to the U.S. by developing countries badly needing revenue to service their debts.

That reverses the argument deployed by U.S. negotiators who claim that, unless the developing countries agree to trade talks, the protectionist pressures on the Reagan Administration will prevail and the Gatt free trade system will collapse.

Mitsubishi to import S. Korean car bodies

By John Gormley

MITSUBISHI Motor of Japan is expected to import about 12,000 South Korean-produced passenger car bodies a year under a joint venture agreement signed with Hyundai Motors.

The agreement coincides with one between Mazda and another South Korean producer, Kia Industries, under which a sub-compact car is to be developed for marketing by Ford in the U.S. Kia is building a plant to produce the model at the rate of 120,000 a year.

Both ventures are widely seen in Japan as precursors to other similar deals to take advantage of South Korea's lower production costs.

Mitsubishi will install engines and other components at a plant in Japan to produce finished cars for domestic sale; Hyundai will produce and sell its own completed version of the car on its home market. Total output of 30,000 cars a year is envisaged, starting early next year.

The car, which replaces Mitsubishi's 22-year-old "Debonair" luxury model, is being designed and developed by Mitsubishi.

Hyundai, which produces the Pony, a small hatchback, and the Stellar, a Sierra-sized saloon, is shortly to launch an "X-car" hatchback, but has no luxury model in its range.

The venture, which recently received South Korean government approval, could also involve the car being marketed in the U.S. Hyundai is setting up its own sales company in the U.S. through which it is likely to start selling its X-car next year.

By 1987, however, it is envisaged that Mitsubishi and Hyundai could be selling the larger car through their respective outlets.

The joint venture model is to be launched in Japan in April. Earlier this year, Mitsubishi Corporation and its vehicles subsidiary increased their equity stake in Hyundai from 10 to 15 per cent to further cement a relationship which began as a technical collaboration agreement 13 years ago.

The engines to be used in the new car, V6 of 2 and 3 litres, are also to be supplied to Chrysler, starting late next year. Some 600,000 a year are scheduled to be delivered over a five-year period.

World Economic Indicators

		UNEMPLOYMENT			
		June 85	May 85	April 85	June 84
U.S.	000s	8,413	8,413	8,426	8,228
	%	7.3	7.3	7.3	7.2
UK	000s	3,178.5	3,346.9	3,272.6	3,029.7
	%	13.1	13.4	12.5	12.5
W. Germany	000s	2,192.6	2,304.6	2,474.5	2,133.2
	%	8.1	8.6	9.2	7.9
France	000s	2,282.6	2,338.2	2,419.8	2,167.5
	%	9.9	10.1	10.5	9.4
Italy	000s	2,907.2	2,932.6	2,972.3	2,683.2
	%	12.9	13.0	13.1	11.9
Netherlands	000s	737.0	748.1	773.4	807.2
	%	12.9	13.1	13.6	14.1
Belgium	000s	528.5	546.2	580.0	532.1
	%	12.3	12.3	14.1	13.4
Japan	000s	1,570.0	1,540.0	1,640.0	1,680.0
	%	2.4	2.6	2.5	2.6

Source: (except U.S., UK, Japan) Eurostat

China cancels order for Taiwanese motorcycles

BY BOB KING IN TAIPEI

ONE OF Taiwan's largest manufacturers of motor cycles, which had hoped to profit from the boom in indirect exports to China, through Hong Kong, is now serving as an example of the perils of such trade.

Paijia Industrial, which manufactures small motor cycles largely for sale on the domestic market was caught off guard last week when Chinese importers allegedly cancelled without explanation an order for more than 6,000 machines. The move forced an indefinite closure of the company's plant.

The cancellation also left the company more than \$1m (£714,000) in debt for the motor cycles, which it had, according to local press reports, already completed and was preparing to ship. The reports said the company's president had issued post-dated cheques worth more than \$2m in expectation of the Chinese letters of credit through Hong Kong agent.

The case, which could spell the demise of Paijia, under-

scores caveats from Taiwanese economic planners, who have warned manufacturers here of over-reliance on the China market while turning a blind eye to indirect trade.

Taiwan officially proscribes any links, including trade, with mainland China with which it has been technically at war for almost 40 years.

But recent government pronouncements, that have in effect said that it did not care about, nor did it wish to know about, trade transactions through third countries, have pushed Taiwanese exports to China through Hong Kong to record levels in recent months.

Taiwan views China's attempt to woo Taiwanese exports as yet another "united front tactic" to subvert this island economically.

Although the cancellation of orders from Paijia reflects nothing more than a shortage of foreign exchange in China, it may nonetheless prove a sobering experience for manufacturers here, who had hoped to win a share of that market.

Brazil airlines press for more international flights

BY ANDREW WHITLEY IN RIO DE JANEIRO

THE Brazilian Government is coming under heavy pressure from Vasp and Transbrasil, the country's second and third-ranked airlines, to end the monopoly of international scheduled flights enjoyed by Varig, Brazil's successful international flag carrier.

Vasp wants to convert its charter flight route from Sao Paulo to the Caribbean and Orlando, Florida, into a regular flight. No answer has yet been received from the Civil Aviation Department in Brasilia.

Transbrasil, meanwhile, has not yet given up hope of a charter route from Rio de Janeiro to Lille in France—regarded as a first step towards a scheduled service abroad—despite an initial rebuff from the Government.

Behind this push to extend their wings abroad lies the hard numbers of recession-hit domestic passenger traffic. Passenger-kilometres down fell 5.1 per cent in the first six months, compared with the same period in 1984.

Vasp, owned by Sao Paulo state, and Transbrasil, a pri-

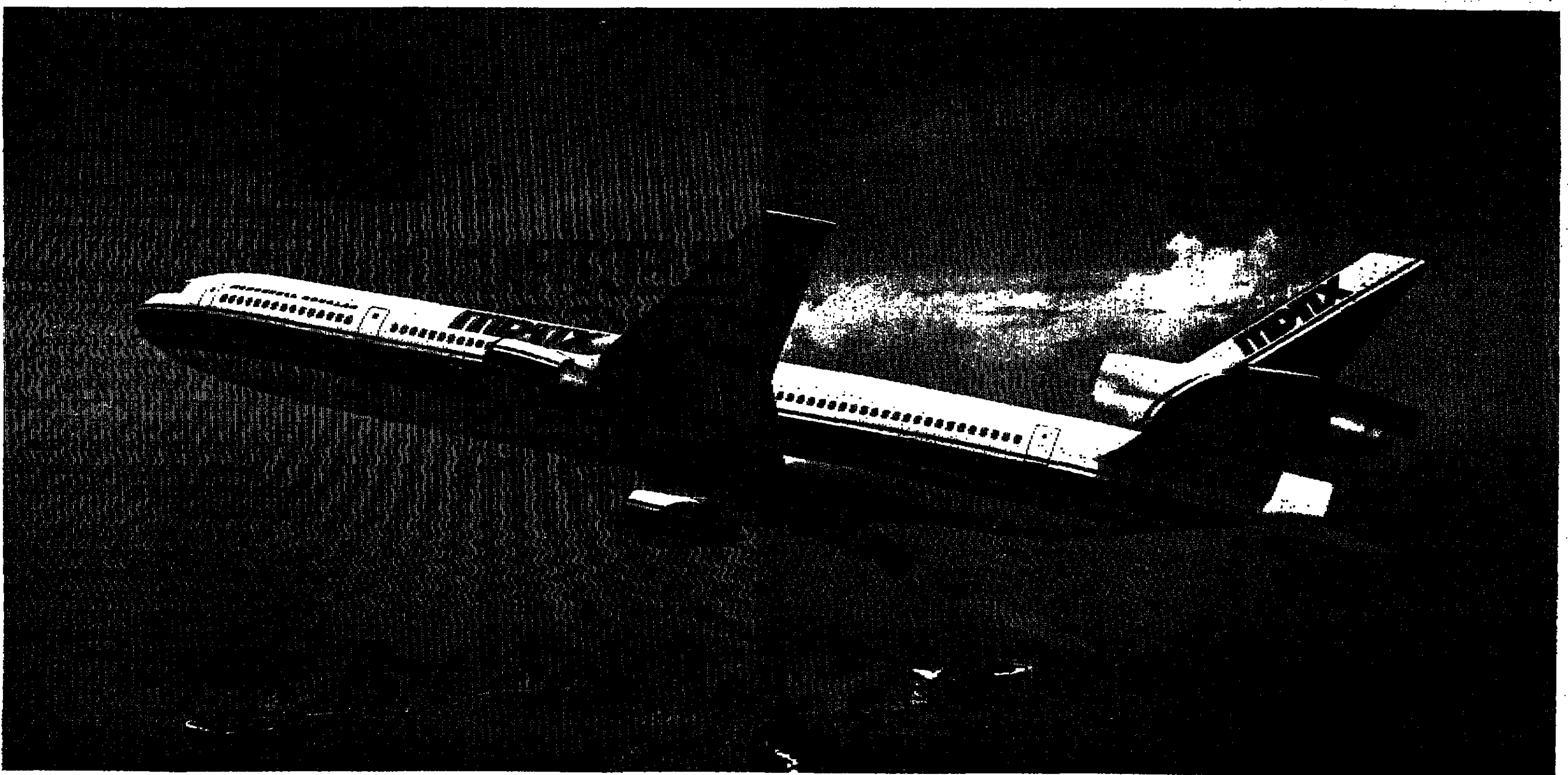
vately owned airline based in Brasilia, have had to scrap ambitious re-equipment plans and lease off existing aircraft.

What annoys Sr Omar Fontana, the outspoken Transbrasil president, and Sr Antonio Angarita, the state-appointed head of Vasp, is that Varig has been largely spared these rigours, because of the 15-year monopoly it was awarded on international routes in 1973.

More than three-quarters of Varig's 1984 revenue of \$954m (\$661m) last year came from its external routes. Internally it is thought to have lost money; but, together with its sister company, Cruzeiro, it still managed to hang on to its 40 per cent share of the market.

Defending his company's position, Sr Helio Smith, president of Varig, which is privately owned, warns that the entry of one or another Brazilian carrier onto international routes put the entire Brazilian aviation industry at risk.

According to Sr Smith, Varig has Cruzeiro debts equivalent to \$87m and hard currency debts outstanding of \$732m, excluding interest payments.



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longer; it will comfortably welcome 54 more passengers (that's 331, mixed class); it will have new high-efficiency engines, and its range will be increased to over 6,000 nautical miles.

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UK NEWS

Management buyout finance plan launched

BY JEREMY STONE

A PLAN to assemble up to £300m as a stand-by facility for use in large UK management buyouts has been launched by Electra Investment Trust and Candover Investments. If institutions respond as expected, this will be by far the largest facility of this kind put together in the UK.

Assuming that the full £300m is committed on the scheme, additional sources of loan finance could take the total capital available to the Electra Candover Direct Investment Plan over the £1bn mark.

The Electra Candover plan is intended to meet an increasing demand for finance packages to buy companies which are significantly larger than those which have been involved in UK buyouts so far. It follows the pattern of U.S. equity finance "pools" which have indirectly enabled groups of institutions to mount offers for companies as large as Gulf Oil.

The size of deals in the UK has up to now been limited by the difficulty of putting finance together quickly enough, when a large number of investing institutions need to be involved.

Electra Candover plan intends to solve this problem by gaining the consent of subscribing institutions on their behalf without delay.

Indications of institutional interest so far suggest that Electra Candover should have little difficulty in raising more than £200m. Electra is itself putting up £10m, and Candover £2m, while Globe Investment Trust - the largest shareholder in each - will commit up to £20m.

Candover's Mr Roger Brooks said that the plan seemed attractive to a number of large UK institutions, notably pension funds, who wanted to make more unlisted investments but lacked expertise in assessing them.

The plan's investments are to be mainly management buyouts of UK companies, but other unquoted companies will be considered. Mr Michael Stoddart, of Electra, said that the scheme would probably make eight to 10 large investments altogether. "There could be many large UK subsidiaries of U.S. corporations thrown on the market by mergers," he said.

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CHALLENGE OVER DIGITAL EQUIPMENT PROCUREMENT POLICY

Telecom may face Axe purchase limit

BY GUY DE JONQUIERES

THE OFFICE of Telecommunications (OfTel) is expected to call on British Telecom (BT) this week to place a temporary limit on its orders for Axe digital public telephone exchanges made by Thorn-Ericsson, a joint subsidiary of Thorn EMI and Sweden's L. M. Ericsson.

OfTel, which has no powers to enforce its recommendations, is responding to concern in Parliament and the UK telecommunications industry that BT's purchases of Axe equipment could harm Britain's System X public exchange and its two manufacturers, Plessey and the General Electric Company.

BT has so far placed Axe orders worth an estimated £100m and has

reserved the right to increase its purchases. It plans at present to take delivery of an initial 100,000 Axe exchange lines in the second half of next year and of a further 300,000 to 500,000 lines in 1987-88.

OfTel believes that BT's decision to buy Axe was commercially justified, but is considering proposing that BT should not exceed for the next three years the order levels announced so far unless System X is afflicted by severe supply problems.

OfTel, which is expected to publish its recommendations tomorrow, favours open competition between Axe and System X for orders after mid-1988. Plessey and GEC have so far received BT orders for

1.6m lines of System X, but were not invited to bid for the contracts awarded to Thorn-Ericsson.

BT has said that it aims to use Axe to meet up to 20 per cent of its digital public exchange needs. Its annual digital exchange orders total about 2m lines at present and are expected to rise to close to 3m lines from the middle of next year.

OfTel is also considering recommending special arrangements to strengthen Britain's position in digital exchange technology. It is studying three possible options, on which it will decide before issuing its report.

● Calling on Thorn-Ericsson to transfer more Axe technology to the UK. Though the exchanges will

be made in Britain, most of the design and development work has been carried out by L.M. Ericsson in Sweden.

● Requiring BT, which has already spent more than £300m to develop System X, to ensure that development work is undertaken on future generations of exchanges.

● Calling on the Government to set up suitable development facilities in co-operation with UK telecommunications manufacturers.

BT may decide voluntarily to observe OfTel's recommendations, or these could be imposed by the Government. OfTel was asked to investigate BT's ordering policy by an all-party group of MPs whose constituencies include System X factories.

Goldcrest parts with its chief executive

BY RAYMOND SNOODY

THE DEPARTURE of Mr James Lee as chief executive of Goldcrest Films and Television at the weekend increases the uncertainty facing the company which is seen as the flagship of the British independent film industry.

Goldcrest has been involved in the financing of the Oscar winning films Gandhi, Chariots of Fire and The Killing Fields, yet so far has

produced earnings well below its target for capital employed. Last month the company announced its first annual profits - a pre-tax profit of £1.8m on turnover of £14m and average capital employed of £23.1m.

Mr Michael Stoddart, chairman of the private company in which Pearson, publisher of the Financial Times has a 41.2 per cent stake, warned that Goldcrest was likely to

slip back into loss this year.

The immediate reason for the departure of Mr Lee, a former McKenzie consultant and chief executive of Pearson Longman who helped to found Goldcrest with Mr Jake Eberts in 1980, was a difference of opinion over a company reorganisation.

The issue arose after the decision of Mr Sandy Lieberman, the Gold-

crest head of production, to return to being an independent producer from next January.

Goldcrest said in a statement: "It is the unanimous opinion (sic) of the board, with the exception of Mr James Lee, chief executive, that a new head of production be appointed with very considerable delegated responsibilities."

Chinese approve British proposal to rebuild coal mine

BY MAURICE SAMUELSON

THE CHINESE Government has approved initial proposals by engineers of Britain's National Coal Board for a large new coal mining scheme, which could reap big orders for UK-made mining equipment.

The plan, to rebuild and extend the Tangshan mine in Hebei province, northeast of Beijing, could involve equipment orders estimated at £80m, which British suppliers appear well placed to secure.

Under the initial feasibility study by NCB consultants, the mine would be expanded to raise its output from 3.5m tonnes a year to 5m tonnes a year.

It is part of the Kailuan mining complex, whose overall output China wants to increase from 20m to 35m tonnes a year. This is part of the national programme for boosting total coal output from about 700m tonnes a year to 1.2bn tonnes a year by the end of the century.

The NCB study allows for the construction of three shafts, the driving of roadways into new coal reserves, and coal preparation and handling facilities.

When the Chinese invited the

NCB to conduct the pre-feasibility plan last summer, it was also anticipated that the board might also advise on other work in the Kailuan complex.

The board is now awaiting Chinese approval for the full feasibility study showing how the Tangshan mine should be equipped and operated. Rough estimates put the cost of equipping it at around £30m, much of which would be imported or manufactured in China by joint-venture companies.

Already regarded as a potential breakthrough by UK equipment suppliers, it would be the biggest Chinese coal project in which Britain has been significantly involved.

Even without a firm decision on Tangshan, the UK mining equipment industry is this year reporting bigger earnings from China.

After three years of faltering orders, the Association of British Mining Equipment Manufacturers says orders from China in 1985 and 1986 may reach £80m. This compares with less than £30m worth of orders last year and marks a return towards the record £122m worth of orders in 1979 and 1980.

Parliament set for pay rise rebellion

By John Hunt

THE GOVERNMENT faces a rebellion by some Conservative MPs in the House of Commons tomorrow over its decision to award salary increases of up to 48 per cent to top civil servants, judges and senior officers of the armed forces.

Up to 20 Tory backbenchers will show their anger at the Government's handling of the affair by refusing to vote for an increase in the salary of Lord Hailsham, the Lord Chancellor, from £56,250 to £77,000.

In fact, Lord Hailsham draws only £30,980 of his current salary and has said that he will not take the latest increase.

However, the rebels will use this as an opportunity to demonstrate their dissatisfaction at what they believe to be the insensitive way the Government has made the large awards to "top people."

They are astonished that it has come at a time when the Government is seeking to hold down public sector pay and are particularly concerned at the effect it may have on the teachers' dispute.

Government whips are finding it difficult to assess the size of the rebellion, as it seems to spread across the party spectrum, including right-wingers.

The Government has ensured that the motion will be debated after 10pm and this should limit the trouble.

One or two Tories could vote against the Order, but abstentions are more likely. A larger number of Tories are expected to be discreetly absent as a sign of their disenchantment.

Some backbenchers believe that Mrs Margaret Thatcher, Prime Minister, should move the Order and reply to the criticism. It now seems likely that the unenviable task will fall to Mr John Biffen, Leader of the House.

Bank studies legal position on staff losses

BARCLAYS BANK is examining the possibility of taking legal action against a group of dealers who are leaving Wedd Durlacher Mordant, the stockbroker which is in the process of merging with Barclays, to join a rival firm, Martin Dickson writes.

Eight of Wedd's dealers said earlier this month that they were leaving the firm to join the securities operation being set up by Kleinwort Benson, the merchant bank.

The move is one of the biggest staff losses from a major firm since the start of the financial services revolution in London two years ago and comes on top of a wave of individual departures from Wedd over the past few months.

Barclays said yesterday that it was consulting its lawyers about the possibility of legal action, but it declined to comment on what grounds there might be to pursue a case.

The bank is thought to be keen to draw a line establishing some limits to the movement of individuals between firms amid the upheaval of the City revolution.

The eight leaving Wedd Durlacher include two senior partners - Mr Charles Hue Williams and Mr William Mellen - three other partners, and three staff members. Barclays declined yesterday to comment on their conditions of employment.

□ COMPLETION of another section of a 122-mile motorway around London is set for next month, leaving only 27.9 miles to complete by the end of next year. The £900m project, called the M25, is expected to relieve congestion in some areas, but may increase problems at the Dartford Tunnel, which carries traffic under the Thames east of London.

□ SLIMMA, a major supplier of men's and women's clothes to Marks & Spencer, plans to develop a chain called Second City, which will sell clothes rejected by Marks. Slimma is launching the venture in conjunction with British Shoe Corporation, the country's largest footwear retailer. The two plan to open stores on common sites.

□ IRON foundry industry in Britain lost 56.4 per cent of its workforce between 1973 and 1983 when more than half of the country's foundries were closed. Total production fell from 3.43m tonnes to 1.44m tonnes during the period, according to a survey by the Government Business Statistics Office.

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9	Miscellaneous	2.5
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UK NEWS

ANGLO-FRENCH DEAL IS ON TIME AND ON BUDGET

Power line to high politics

BY IAN HARGREAVES

IN A FEW days time, tides permitting, two 1,700 tonne cables will be landed at Sangatte on the French side of the English Channel. Four months later, in November, the first power should start to flow across the 560km Anglo-French electricity link.

In engineering terms, laying the 2,000 MW link has been a considerable success: it is more or less on time and on budget.

However, behind the scenes, the all-important commercial terms which will govern trade across the link have not been constructed nearly so smoothly. Ever since it became obvious that France could deliver electricity cheaper than any existing or imaginable British power station, the link has become a matter of high politics.

Disentangling those politics is not easy, but based on interviews on both sides of the Channel, two points are clear:

● Britain turned down the chance of a much cheaper supply of electricity through the link over a longer contract period than was eventually agreed. The cost of this decision is measured in tens of millions of pounds a year.

● The link and the possibility of future links has divided both the electricity industry and the Government. It sets those whose priority is cheap power (to enable electricity to compete most effectively with gas) against those who feel strongly that Britain's priority should be a strong domestic power industry.

Negotiations on the commercial arrangements for the link began in late 1983, two years after the signing of a protocol between the British and French governments. France, still mindful of Britain's decision to cancel the Channel Tunnel in 1975, insisted upon a penalty clause for any government veto of the link.

The 2,000 Mw link was to open in two stages, 1,000 Mw this autumn and a further 1,000 Mw a year later.

When it was originally conceived in the 1970s, the link was seen in Britain as a way to sell coal-fired power to France — "selling coal by wire" as it was promoted at the time.

By 1983 it was evident the link would involve one-way traffic from France to Britain. Although both Electricité de France and the Central Electricity Generating Board have surplus capacity, Britain's consists of high-cost oil and older coal-fired stations, whereas France's is based upon the most sophisticated nuclear-powered grid in the world.

EdF was keen to sign up new export customers and started talking very aggressively, designed to secure the long-term business of its newest customer. According to those involved in the negotiations, figures as low as 1p per kilowatt

winter of 1984-85, EdF started talking much higher prices — pressed by a French Government increasingly anxious about the advantage EdF was helping to confer upon France's industrial competitors. It was also a good negotiating tactic to tell the British that the price was getting higher the longer they delayed.

By January 1985, the two sides, negotiators were again drawing close to agreement and Sir Walter Marshall, chairman of the CEBG, told his negotiators to sign. Letters were exchanged between the two sides for the UK purchase of French electricity from phase one of the link for two years.

an additional link, it raises questions about the much more expensive option of building UK stations such as the proposed £1.2bn, 1185 Mw Sizewell B nuclear reactor. Output from Sizewell, according to the CEBG's own estimates, will cost 2.94p per kwh — compared with 1p to 2p for EdF's electricity.

Mrs Margaret Thatcher, the Prime Minister, has become personally involved in the matter and is a strong advocate of the link. Sir Walter, in most circumstances a close ally of Mrs Thatcher, has taken public opportunities to warn of the danger of too heavy a reliance

Guernsey considers Channel power link

GUERNSEY is considering an undersea cable link with France to hold down the cost of its electricity, at present produced by diesel generators using heavy fuel oil, Edward Owen writes.

The electricity board is to ask the island parliament on July 31 to let it spend up to £100,000 on a survey of the proposed cable route, which would come ashore at Anse de Sciot on the Normandy coast and connect the island with a 90 kV sub-station at Tolmar.

The board says that with no

prospect of stability in the cost of heavy fuel oil and changes in Electricité de France's commercial tariff, a cable link to enable the island to tap the European grid appears viable, even though capital cost at current prices would be about £20m.

Like Jersey, which has already established a cable link with France, Guernsey would use French power in the summer months when EdF's tariff is low and generate its own electricity in the winter.

The £100,000 vote for the initial

survey is to be opposed by a small group of local MPs who believe the proposed link would weaken the island's position in the event of any pollution threat from French nuclear developments on the nearby Cotentin Peninsula.

Anticipating this objection, Guernsey's electricity board said the European grid was powered by a variety of sources — oil, coal, hydroelectric, tidal and nuclear — and says that whether or not the island takes energy from the grid will make no difference at all to France's nuclear power policy.

hour were mentioned in the early stages of talks.

The French were also keen to secure a long-term contract of at least five years, although options for up to 15 years were discussed.

By this time, however, the offer was too good for the British.

Mr Peter Walker the Energy Secretary, was about to become embroiled in a coal strike and could see that British power station workers would either win the strike for him or lose it. They might see cheap French power as a threat. Mr Walker dragged his feet, but carefully stopped sort of anything resembling an expensive veto.

During the coal strike, negotiations continued. Eventually, in the

The average price agreed was 2p per kilowatt hour, which is worth about £160m a year to France. So the cost to Britain of not tying up the earlier, cheaper deals could have been anything up to £20m a year.

The deal was deemed so sensitive that board officials were instructed to rebuff questions on the link by saying it would involve a two-way exchange of electricity as originally conceived.

Eventually, once the coal strike was over, the power unions were fully briefed. They were assured that 1,000 Mw of French electricity would not result in any UK power stations being closed.

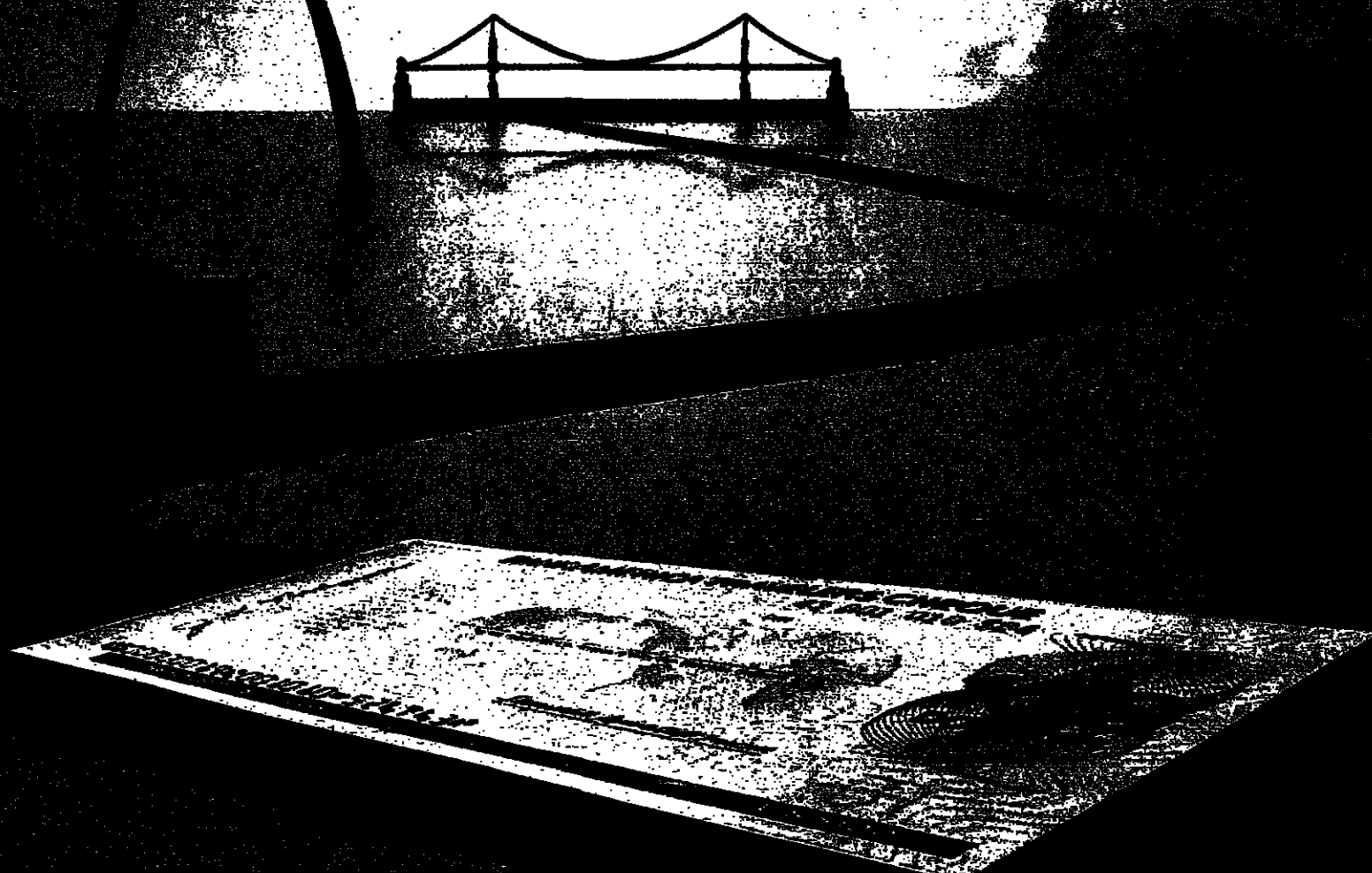
Stage one of the link, however, has opened up much wider issues. Because it will be followed by stage two and could easily be followed by

on French power — he senses the risk to his pet Sizewell project.

The British miners, whose sensitivities were considered so important during the strike, are likely to lose out anyway, since neither the Government nor the CEBG wants near-term investment in coal-fired stations. Last week, the only serious chance of a pro-coal CEBG investment — conversion of the oil-fired Isle of Grain Station in Kent to coal — was abandoned.

As one EdF man put it, "Mrs Thatcher will have to choose between the French atom and the British coal miner." Actually, the choice is between French power and British power. According to figures from Unipede, the international club of power utilities, Sizewell B will cost more than twice as much to build per kilowatt as an equivalent French plant.

TRIP FOR TRAVEL TO AMERICA



UK NEWS

CBI/FT DISTRIBUTION INDUSTRY SURVEY

Trade volume increasing, say retailers

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

RETAIL TRADERS are expecting business to continue briskly through this month, according to the latest survey of the distribution industry by the Confederation of British Industry (CBI) with the FT.

It showed that retail sales this month are expected to continue to be significantly higher than last year's level, although sales in June were lower than had been expected.

Of the 345 respondents in the retailing industry, 85 per cent reported that their sales volume was higher in June than last year's level, with 18 per cent reporting a decline. The percentage balance (the proportion reporting a rise minus the proportion reporting a fall) was 90 per cent compared with 56 per cent in May and 60 per cent a year ago.

Volume of orders placed on suppliers was also higher than last year's level, with a 28 per cent balance reporting a rise. That was significantly less than the figures reported over the last year, which have generally been between 30 per cent and 40 per cent.

As a result of the poorer than expected sales in June, retailers reported that their ratios of stocks to sales were higher than they had been expecting. A balance of 19 per cent said stocks were too high, although a balance of only 10 per cent had expected them to be too high.

Mr. John Salisse, chairman of the CBI's Distributive Trades Survey Panel, said that clothing stores had experienced good sales this month with large multiple stores and mail-order companies leading the way.

He said, "Fine weather has tempted customers out, but they have been underpinned by high inter-

est rates, which, for many, will have increased mortgage repayments, and reduced the cash they have for spending."

Most sectors have been doing well recently except the confectionery, tobacco and newspaper shops. These have continued to suffer from increased competition from supermarkets and from the decline in cigarette sales.

Wholesalers reported that business in June was not quite as good as they had been expecting, but still well ahead of last year's level. A balance of 45 per cent reported an improvement compared with last year. That was not as good as the balance of around 60 per cent for April and May, but still well ahead of the responses in the 10 months up to March.

Wholesalers are expecting the improvement to continue this month, with a balance of 37 per cent expecting orders placed on suppliers to be higher than at the same time last year.

In June, a balance of 32 per cent reported that they had increased orders. That was less than the number that had been expecting an increase, and less than in April and May, but still much better than the figures for earlier months.

Significantly, fewer wholesalers reported that their stock levels were too high in relation to sales. The balance of 13 per cent reported excessive stocks in June compared with 27 per cent in May, but it was not far out of line with the figures for earlier months this year.

Trade by the motor industry in June was about the same as the level of the previous year.

Call to recover privatised assets

By Our Political Editor

THE LABOUR Party conference this autumn will be widely urged to return all privatised companies to public ownership. Several of the 26 motions on the subject call for new forms of social ownership rather than the old-style of centralised nationalisation.

Public ownership comes third in degree of interest behind the welfare state (47 motions), the largest number ever submitted on a single topic) and the miners (30 motions) in the conference resolutions published today.

Most of the public ownership motions call for the rationalisation of all privatised assets. Only one says that should be without compensation either being on the basis of proven need or at least excluding speculative gains.

A common theme is a rejection of "old-style" or "bureaucratic" nationalisation. Instead, there are calls for new forms of social ownership more accountable to workers, trade unions, and consumers.

For example, the National Communications Union (engineering group) argues that "nationalisation must be used to create more imaginative and responsive public enterprises by using different forms of organisation based on common interest of employees, consumers and supporting industries."

The conference will be dominated by the presentation of the leadership's proposals on economic and industrial policy, including the joint statement with the Trades Union Congress, which will be published in two weeks' time.

The degree of interest in the welfare state reinforces the leadership's belief that this is an area in which the Government is vulnerable.

THE KINGDOM OF DENMARK

Issue of US\$ 250,000,000 12½% Notes due February 27, 1992
with 250,000 Warrants to subscribe 12½% Notes due February 27, 1992

Pursuant to paragraph "Redemption and Purchase" of the Terms and Conditions of the Notes, notice is hereby given that as a result of the exercise of Warrants, Notes for an additional aggregate principal amount of US\$ 250,000,000 will be redeemable on August 22, 1985 at 101 per cent of their principal amount, together with accrued interest (i.e. US\$ 309.90 per denomination of US\$ 5,000) from February 27, 1985 to the date of redemption.

The Notes bearing the following serial numbers have been drawn by lot in the presence of a Notary Public and may be presented to Kredietbank S.A. Luxembourg, 43, Boulevard Royal, Luxembourg or to the other Paying Agents named on the Notes:

00001	01500	02763	04275	05821	07298	08821	10522	12066	13684	14854	16176
00002	01501	02764	04276	05822	07299	08822	10523	12067	13685	14855	16177
00003	01502	02765	04277	05823	07300	08823	10524	12068	13686	14856	16178
00004	01503	02766	04278	05824	07301	08824	10525	12069	13687	14857	16179
00005	01504	02767	04279	05825	07302	08825	10526	12070	13688	14858	16180
00006	01505	02768	04280	05826	07303	08826	10527	12071	13689	14859	16181
00007	01506	02769	04281	05827	07304	08827	10528	12072	13690	14860	16182
00008	01507	02770	04282	05828	07305	08828	10529	12073	13691	14861	16183
00009	01508	02771	04283	05829	07306	08829	10530	12074	13692	14862	16184
00010	01509	02772	04284	05830	07307	08830	10531	12075	13693	14863	16185
00011	01510	02773	04285	05831	07308	08831	10532	12076	13694	14864	16186
00012	01511	02774	04286	05832	07309	08832	10533	12077	13695	14865	16187
00013	01512	02775	04287	05833	07310	08833	10534	12078	13696	14866	16188
00014	01513	02776	04288	05834	07311	08834	10535	12079	13697	14867	16189
00015	01514	02777	04289	05835	07312	08835	10536	12080	13698	14868	16190
00016	01515	02778	04290	05836	07313	08836	10537	12081	13699	14869	16191
00017	01516	02779	04291	05837	07314	08837	10538	12082	13700	14870	16192
00018	01517	02780	04292	05838	07315	08838	10539	12083	13701	14871	16193
00019	01518	02781	04293	05839	07316	08839	10540	12084	13702	14872	16194
00020	01519	02782	04294	05840	07317	08840	10541	12085	13703	14873	16195
00021	01520	02783	04295	05841	07318	08841	10542	12086	13704	14874	16196
00022	01521	02784	04296	05842	07319	08842	10543	12087	13705	14875	16197
00023	01522	02785	04297	05843	07320	08843	10544	12088	13706	14876	16198
00024	01523	02786	04298	05844	07321	08844	10545	12089	13707	14877	16199
00025	01524	02787	04299	05845	07322	08845	10546	12090	13708	14878	16200
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00099	01598	02861	04373	05919	07396	08919	10620	12164	13782	14952	16274
00100	01599	02862	04374	05920	07397	08920	10621	12165	13783	14	

Cambridge Instruments

A high-tech phoenix

Stefan Wagstyl on the turnaround of a persistent loss-maker

DR TERRY GOODING is this week a disappointed man, following the postponement of plans to float Cambridge Instruments.

The issue would have crowned the recovery of one of the UK's most troubled high technology groups. As it is, the company will now wait until at least the beginning of next year before renewing its plans.

But Gooding, a nuclear scientist turned venture capitalist, will be quick to put the setback behind him. He says the delay is not the fault of the company but of the stock market, where shares in high technology groups have plunged in recent weeks. CIC, he says, has enough capital and enough borrowing capacity to carry on its business as planned.

At the hands of Gooding the scientific equipment company is making money in the 1980s after surviving the 1970s only with the financial support of its biggest shareholder, the Government-backed National Enterprise Board.

When Gooding bought control of CIC from the NEB in 1979, he found a company on the verge of bankruptcy. The NEB saw him as the last chance of saving a group losing £3m a year. That chance has resulted in a turnaround to profits for the year to the end of March 1985 of £4.2m, pre-tax on sales of £52m, with another increase expected this year.

But how is it that Gooding has succeeded where so many others failed—despite Government backing? And what are the prospects for the company now that its recovery appears complete? In particular, how can CIC, relying on exports for three-quarters of its turnover, compete with U.S. and Japanese rivals with much larger home markets for high technology?

British industrialists and civil servants alike give much of the credit for saving CIC to Gooding himself. A 51-year-old Welsh-born U.S. citizen with a PhD in nuclear physics, he came to Cambridge with a strong record in research and in high technology management. He had worked at the Atomic Energy Research Laboratories at Harwell and at the University of California at Berkeley before becoming a research manager for General

Dynamics. He had founded and later sold a high technology company of his own—Maxwell Laboratories—which turned around Kratos, a quoted loss-making U.S. instrument group. Moreover, even before buying CIC Gooding had already made his mark in the UK. In 1976 Kratos had bought and revived AEI Scientific Apparatus, a troubled GEC subsidiary. One senior British manager who has known Gooding since that time says: "He's a very rare animal. He's a first-class scientist turned businessman. And he's got charisma—he's able to get good people around him."

In CIC Gooding found a company which had enjoyed a reputation for technical excellence ever since it was set up by a son of the biologist Charles Darwin at the end of the 19th century. Constant exchanges of people and ideas with the laboratories of nearby Cambridge University had kept the company at the forefront of technology.

Pioneer

Since the 1950s it had been a pioneer of electron microscopes—many times more powerful than optical microscopes—developing them first for academic and medical research and later for use in commercial and industrial laboratories. More recently, the company had adapted this equipment into a range of production tools for the semiconductor industry—making machines which manufacture and test microchips.

It was for the sake of this technology—in which the UK would otherwise be poorly represented—that successive governments tried to nurture the company—as they also supported chip maker Immos and computer group ICL.

Three government-backed attempts to reshape the company failed. First in 1968, when the Science Research Corporation used public funds to back a takeover by the George Kent Instrument Group at the expense of rival bidder Rank Organisation. Then in 1975, following the takeover of the Swiss group Brown Boveri, the National Enterprise Board bought the former Cambridge company, now called Scientific and Medical Instruments, out of Kent and merged it with Metals Research. It restored the name Cambridge Instrument Company to the

combined group. Subsequently, the company's chronic shortage of cash forced the NEB to inject new capital raising its stake to 93 per cent. But the losses continued to mount until Gooding arrived.

He was backed by Midland Bank and IFC and by a fresh injection of NEB funds—£8.5m on top of the £5m previously absorbed by the company.

He moved quickly, bringing in senior management from Kratos and taking the troubled group into profit within 18 months.

Gooding makes no bones about what had been wrong with CIC. The company had good scientists and engineers, he says, but weak financial and commercial management.

"I brought in experienced management. We knew how to manage a business. That wasn't the NEB's strength."

CIC's management in the 1970s had identified the underpricing of electron microscopes, by up to 50 per cent, as the root cause of the company's problems, but had been unable to close the gap between costs and revenues.

Gooding first tackled costs—working out exactly how much each stage of the lengthy production process cost. He reorganised production at Cambridge, closing one factory to concentrate work in a second. Stocks, work-in-progress and cash balances were all brought under tight control. Because the previous management had invested heavily in new products, particularly in the range of equipment for semiconductor manufacture, Gooding was able to relax in research and development spending.

Equally importantly, the group's international marketing efforts were expanded by taking on more skilled salesmen and improving their training. Against a background of economic recovery and, after 1982, a weakening pound, CIC was able to raise prices, expand its sales force, and improve its margins.

Dr Bill Henderson, managing director, says, CIC was for the first time exploiting its position as market leader in electron microscopes and rivals generally followed suit with price increases of their own.

Gooding says more effort was put into increasing sales in the U.S. and Japan, which are much bigger markets for CIC than Europe.



Dr Terry Gooding (left) and Dr William Henderson

pany's main businesses in scientific instruments and semiconductor equipment, Gooding turned to its other activities. A U.S. operation making industrial controls was supplemented by the acquisition of two UK companies.

CIC's medical equipment business, which once pioneered the electrocardiograph, was also first expanded by acquisition with the purchase of shares of two companies from the U.S. group Warner Lambert. Then, in 1981, the enlarged business was sold to GEC which merged it with Fickler International, its U.S. medical instruments subsidiary. CIC took a stake in Fickler which now stands at 71 per cent.

Gooding says that the group sold out of medical equipment because its market share was too small. By 1983, CIC was ready to diversify. It added a trading arm—dealing in scientific instruments on behalf of other manufacturers to make better use of its sales force. It expanded these activities in Japan by buying Andrews and George, a trading company. Trading is seen as a hedge against the high costs of R & D and manufacture of its own products.

Despite the changes of the past five years, the heart of the group is still the manufacture of scientific instruments and semiconductor equipment. In scientific instruments, Gooding believes that the company can increase its 20 per

cent share of the world market in electron microscopes and image analysis equipment by building on its presence in Western Europe and the U.S. and increasing its negligible sales to Japan. The market itself is expected to grow as the use of microscopes in industry increases, notably in pharmaceuticals, food and metallurgy.

The thrust of the group's technological and marketing effort is in expanding sales of semiconductor equipment.

It is a world market leader in electron beam microfabricators—which etch circuits on to microchips—and in crystal pullers—machines for making gallium arsenide, a new microchip material which could replace silicon in certain applications.

Gooding says that CIC more than holds its own against fragmented competitors—chiefly U.S. and Japanese companies. Moreover, it is to some extent protected from the threat of new rivals because of the high cost of mastering the range of technologies involved—from electronics to precision engineering.

The company has plans to set up test and assembly plants in the U.S. and in Japan. But it has no intention of switching manufacturing away from Cambridge, where the bulk of the group's 1,300 staff work. Gooding says that the UK is the cheapest place to employ people with a such a mix of advanced skills.

West German industry

Burdens of bureaucracy

A MARKETING manager who works for one of West Germany's large chemical companies is responsible for annual revenues of more than DM 150m (£57.5m). Yet he has authority to spend only DM 1,000 (£250). For anything above that limit he has to seek approval from his superiors.

Professor Hermann Simon cites this remarkable case of bureaucracy to explain why many German companies are having difficulty in becoming more flexible and more responsive to the marketplace, and in encouraging their executives to take risks in order to compete with more sprightly American and Japanese companies.

"Risk-avoidance is a pretty serious problem," says Simon. "I'm continually struck by how cautious people are, especially in middle management. Decisions are always getting postponed, and pushed up to a higher level."

As head of West Germany's leading executive education centre, Universitätsseminar der Wirtschaft (USW), and senior partner of a management consultancy, Simon has plenty of experience of the realities of life inside German companies. He is discreet about naming names, but pulls no punches in his criticisms.

The main problem for most middle managers is not one of strategy, or of inadequate marketing, but of convincing their superiors to take action," he claims. He cites one company where an informal group of young senior executives regularly meets in secret session with a sympathetic member of the Vorstand (executive board) to thrash out quick decisions, and to decide how to try to push them through the board.

In several other companies, says Simon, second and third-level managers have coped with the problem differently: either by making and implementing decisions without reference to the board, or by taking no notice of the board's rulings.

Simon quotes two such examples. In a company in the motor industry the board's rigid diktat about the balance to be struck between output of two prime products has been ignored (middle management has simply adjusted output in response to changing market conditions). And in a medium-sized chemical company dissenting middle managers have taken no notice of the board's decision to make a

series of far-reaching changes in the structure of the sales organisation.

This sort of "guerrilla warfare," as Simon calls it, is by no means uncommon, he claims—many companies are "out of control." For some this is a definite advantage, he argues—they are responding to changing market circumstances in spite of top management sclerosis. But for others, "it's a disaster."

As a glaring example, Simon cites the reluctance—or organisational inability—of most German consumer product companies to respond to the

the growth decades of the 1950s and 1960s. According to Simon they feel that "you can fix problems simply by working hard." They tend to take decisions on the basis of rules of thumb. And they make the mistake of extrapolating past success into the future.

On the other hand, the formative years for middle managers in their 40s and 50s were the slow growth 1970s, when the managerial emphasis shifted to analysis, fine tuning, and risk avoidance.

The inevitable result of this contrast in cultures, says Simon, is conflict and inertia. Top managers respond to a crisis in the marketplace by applying old rules of thumb, while middle management falls back on analysis.

A further element in the generation gap, the USW chief maintains, is between those with and without international experience. Most of the younger managers, including many 40-year-olds, have spent many years abroad. As a result, says Simon, they are more open to the need for change and to the methods of managing it.

Ten years from now there may be a different sort of generation gap, he warns: between those who have grown up amid the electronics revolution, and those who have not. But in the meantime he remains concerned about rigid boardroom attitudes in many German companies, and their inability to respond even to a manifest competitive crisis.

On the positive side, he panics are not as inextinguishable as they appear, especially where decisions can be taken and implemented at relatively low levels of management. And though entrepreneurship in large German companies is less well developed than in America, he expects a shift towards the U.S. pattern.

His own research data suggests that, as in the U.S., German students are becoming reluctant to join large organisations. "So companies which want to attract entrepreneurial people may have to set up venture-type organisations." As a model of decentralisation, flexibility and managerial motivation he points to the Bertelsmann publishing empire, where individual responsibility (and performance incentives) are pushed down to an extremely low level.

Christopher Lorenz



"All things considered, by and large, given our situation—what would you do?"

devastating challenge posed by suppliers of generics ("no names"). With the exception of Reemtsma, the cigarette company which has virtually destroyed the threat of generics through swinging price-cuts and heavy promotional spending, most German consumer goods makers "are more or less trying to continue doing business the old way," he complains.

Although generics have captured between a quarter and a half of many consumer product markets in Germany, several leading branded goods makers "are simply refusing to accept that new arrivals have established a strong competitive advantage."

Behind the inflexibility of many German companies "lies a huge generation gap," Simon argues—not so much of age, but of experience. Most of Germany's top managers are in their 50s and 60s, and gained their formative experience in

TECHNOLOGY

First fruit from IBM's Stratus deal

THE FIRST fruits of IBM's recent agreement with Stratus Computer of the U.S. are now available in the UK in the form of two models of fault-tolerant computer, the System/88 Model 40 and Model 60. The machines, reckoned never to stop working through the failure of any single component, have been available in the U.S. for some time.

Fault tolerance is one of the most important areas in computer design at present as senior managers become aware of just how vulnerable their businesses are to computer failure and breakdown.

The leading company in fault-tolerant computers is Tandem of the U.S., whose Non-Stop and TXP systems have set the standard for the past seven years and whose machines are still regarded as the most reliable systems available, because of the wealth of specialised software written to run on them.

The Tandem approach is software-based, developed at a time when hardware was expensive and software was still relatively cheap.

Stratus, on the other hand, started from scratch with cheap microprocessors and exploited the versatility of the hardware to achieve similar reliability.

Each Stratus processor consists of two pairs of matched Motorola 68000 microprocessor chips. Each microprocessor carries out the same calculation independently and only if three processors agree on an answer is the value regarded as accurate.

IBM, until its deal with Stratus, had been very slow to capitalise on the fault-tolerant market, preferring to offer configurations of two or more machines with one acting as "hot back-up."

The new System/88 machines run more than one program at the same time and can be used by a number of operators, all carrying out different tasks.

It supports remote job entry, networking, transaction processing, forms management and interfaces to other computer systems.

Program developers can use System/88 ANSI standard Basic, Cobol, Fortran, PL/1 and Pascal languages.

How IBM contributes to the advancement of science (and science to the advancement of IBM)

IN A laboratory in Winchester a crimson sac the size of a human heart is pulsating as if it were a living but disembodied organ. The sac is a three-dimensional representation of a real heart in action, painted by a computer whose artwork has been supervised by a London heart surgeon.

It is one of a series of vivid 3-D "solid models" IBM scientists are designing as part of a basic research programme in collaboration with academics.

In adjoining laboratories other scientists are uncrumbling the spoken English word and trying to understand what a robot needs to "see" in the factory of the future.

The scientific theme of the laboratory is greater harmony between man and his computer. The main purpose is harmony between IBM and academics. It is one of 16 scientific centres worldwide which provide links with universities and facilitate research in the sciences and skills to the company.

These centres are really academic establishments of 50 to 100 people. Winchester has 60, of which 30 are IBM scientists. Their work is non-profit, proprietary and freely published, says Dr Ian Brackebury, its manager. For an outlay of £2m to £5m a year, it publishes about 40 scientific papers.

Dr Brackebury's targets are never products but new understanding of some major scientific question relevant to IBM.

THE DAYS of frothy beer may be numbered as a result of an innovation in pumping technology, according to marketing managers at GEC Small Machines of Newcastle-under-Lyme.

The company has introduced a motor for pumps that gives pub landlords greater control over the speed that beer travels from barrels to dispensers in the bar.

As a result, according to Mr Philip Ward, chief development engineering of GEC Small Machines' Fractional Horsepower Motor Division, the amount of froth in the beer (caused by pumping at excessive speeds) can be minimised relatively easily.

A bonus for pubs, says the company, is that the new

IBM has 16 centres worldwide dedicated to general research. David Fishlock looks at one in Winchester

UK. Once these scientific centres aimed to sell computers to scientists. Today they help academics solve their problems in partnership, developing what he calls "tools to deal with complexity."

The company itself is eager for international recognition as a contributor to the advance of science and not just as an instrument supplier.

The Winchester scientific centre is funded almost entirely by IBM. The exception is an Alvey project which it shares with eight partners—four universities, three British companies, and the Science and Engineering Research Council. It was brought in at the request of GEC, whose robotics researchers were discussing the problem with IBM scientists engaged in vision analysis.

The £2.4m project aims to provide "visual competence" for assembly and transport robots in the factory of the future.

IBM's expertise lies in a

computer model called Winsom which extracts the salient surfaces from the part to be processed. Its strength lies in the richness of the description this model can compile, says Dr John Frisby, a psychologist specialising in vision with Sheffield University, who works closely with the scientific centre.

For Dr Frisby, the "breaking down of cultural barriers between industry and academics" is the important thing about Alvey. One of the big surprises, he says, is the degree of visual competence needed for robots to deal with the results of such as flawed and misorientated parts.

The centre is collaborating with a score of academic institutions and hospitals round Britain. One collaboration, with the Brompton Hospital in London, has opened up wide interest in computer imaging and imaging systems research, leading to ten different projects. The first one was the digitalising of chest X-rays in an effort to extract more information for the radiologist from the standard X-ray, where they now claim some success.

"There was no way we could do this without the radiologists to give advice," says Dr John Hake, who runs image systems research. For example, IBM recruited 18 radiologists to help determine what resolution would be most useful in an enhanced X-ray picture.

As a result, the technique can turn a wispy shadow, which at present would mean more X-rays having to be taken, into a sharp feature which can be analysed. It will also normalise the differences in orientation, exposure, etc between X-rays taken at intervals, allowing the radiologist to assess more accurately the progress of his patient. An experimental system is soon to be installed.



A computer's view of how Winchester's Saxon cathedral might have looked

Another promising collaboration has led to the vivid computer graphics of the heart and circulatory system. The computer creates 3-D colour images which move, and have texture and shading giving them photographic quality. The collaborations are still determining the value to the doctor of such angiograms which are sketched using X-ray data drawn from the patient.

The extent to which shading can bring a computer image to life can be seen from the picture of the old Saxon minster at Winchester. The image is the computer's interpretation of how archaeologists believe it looked about AD 880, in a picture generated by constructive solid geometry, with data from Winchester Archaeological Trust.

result, a technician should be able to adjust the pumping rate to take account of different types of beer and so reduce froth.

Lager, for example, has to be pumped at a slower rate than bitter. With conventional fixed-speed beer pumps, a pub can vary the flow rate only by changing the dimensions of the pipes that connect a barrel to the bar, a time-consuming and irksome procedure.

GEC Small Machines' motor and inverter costs £85, of which the inverter accounts for about £70. It should only need maintenance after two or three years of operation. The company suggests that rival competitor motors sell for about £35 but require repairs costing about £70 a year.

PETER MARSH

GEC pump takes the head off a pint of beer

pumping motors, although more expensive than conventional devices, should suffer fewer faults and so cut pubs' running costs.

GEC Small Machines has taken advantage of lower costs in inverter devices that change the frequency of an electricity supply with electronic circuits. While inverters are far from new, their costs and size have only in recent years become small enough to permit their incorporation in relatively cheap motors for mundane applications that run on a few hundred watts or less.

The Newcastle-under-Lyme

company hopes to sell 30,000 of its new Masterflow motors annually. That would account for roughly a quarter of the beer-pumping motors sold to British pubs each year.

Most of these devices use mechanical components called commutators to change the phase of the alternating current supplied to the stationary part (stator) of the motor, so producing a smooth rotation.

The main problem with commutator motors is that the brushes on the commutators wear out periodically. The motors generally need maintenance at least twice a year, according to GEC Small

Machines. The company has turned instead to induction motors to power beer pumps. In induction motors, mains electricity is channelled to a series of coils on the stator to ensure that the device runs in synchronisation with changes in the supply voltage. The motors do not require commutators so cost less to maintain.

Unfortunately for makers of beer pumps, induction motors that run directly off the relatively low frequency of the mains electricity supply cannot reach the speeds required for efficient pumping.

While most British beer

pumps are called upon to operate at 7,000 revs/min, an induction motor powered by the standard electricity supply at 50 Hz can turn at only about half this speed.

Hence pubs have had to use commutator motors. A leader in supplying such motors is Frano of Hastings, Sussex.

To increase the speed of its induction motors GEC Small Machines uses an inverter to increase the frequency to 117 Hz, enabling the motor to reach high speeds without difficulty.

A further advantage is that, by changing the inverter controls, the speed of the motor can be varied between 6,000 and 7,000 revs/min. As a

One of these is Personal Engineer, a schematic capture package which runs off the IBM PC/AT. There are also three new logic design enhancements, an advanced schematic editor, and other systems to be translated to the format of a SciCad. Rascal Medica or CV CADDS 4X printed board layout system.

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Low cost word processor

SCREENTYPEST is the name of an all-British word processing system which Office and Electronic Machines has launched at under £1,500.

The company believes it is breaking new ground in price/performance since the machine costs no more than a top grade memory typewriter but has many of the advantages of text manipulation on a screen.

The system has a nine-inch monitor, a 3.5 inch disk drive and uses the Adler Imperial SE310 electronic typewriter for keyboarding and printing. About 100 pages of text can be stored on each disk. More on 01-407 3191.

Software for chip design

COMPUTERVISION, which some market researchers say has been overtaken by IBM as the leading computer aided design company, also admits in a recent statement that it has "felt heavy pressure from new workstation-based suppliers."

But it says it has "answered back loudly" at the recent Silicon Design exhibition by announcing 10 new products that concentrate on the electronic design segment of the industry.

One of these is Personal Engineer, a schematic capture package which runs off the IBM PC/AT. There are also three new logic design enhancements, an advanced schematic editor, and other systems to be translated to the format of a SciCad. Rascal Medica or CV CADDS 4X printed board layout system.

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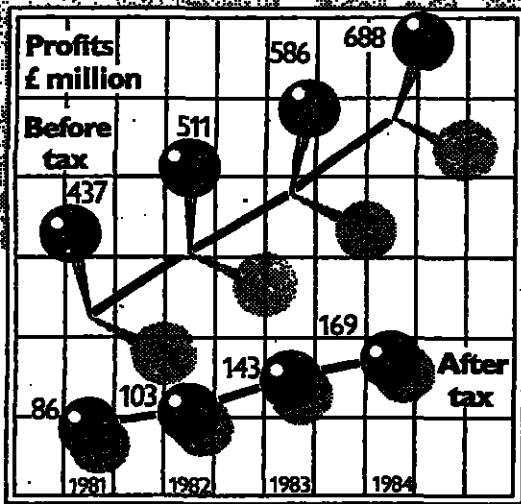
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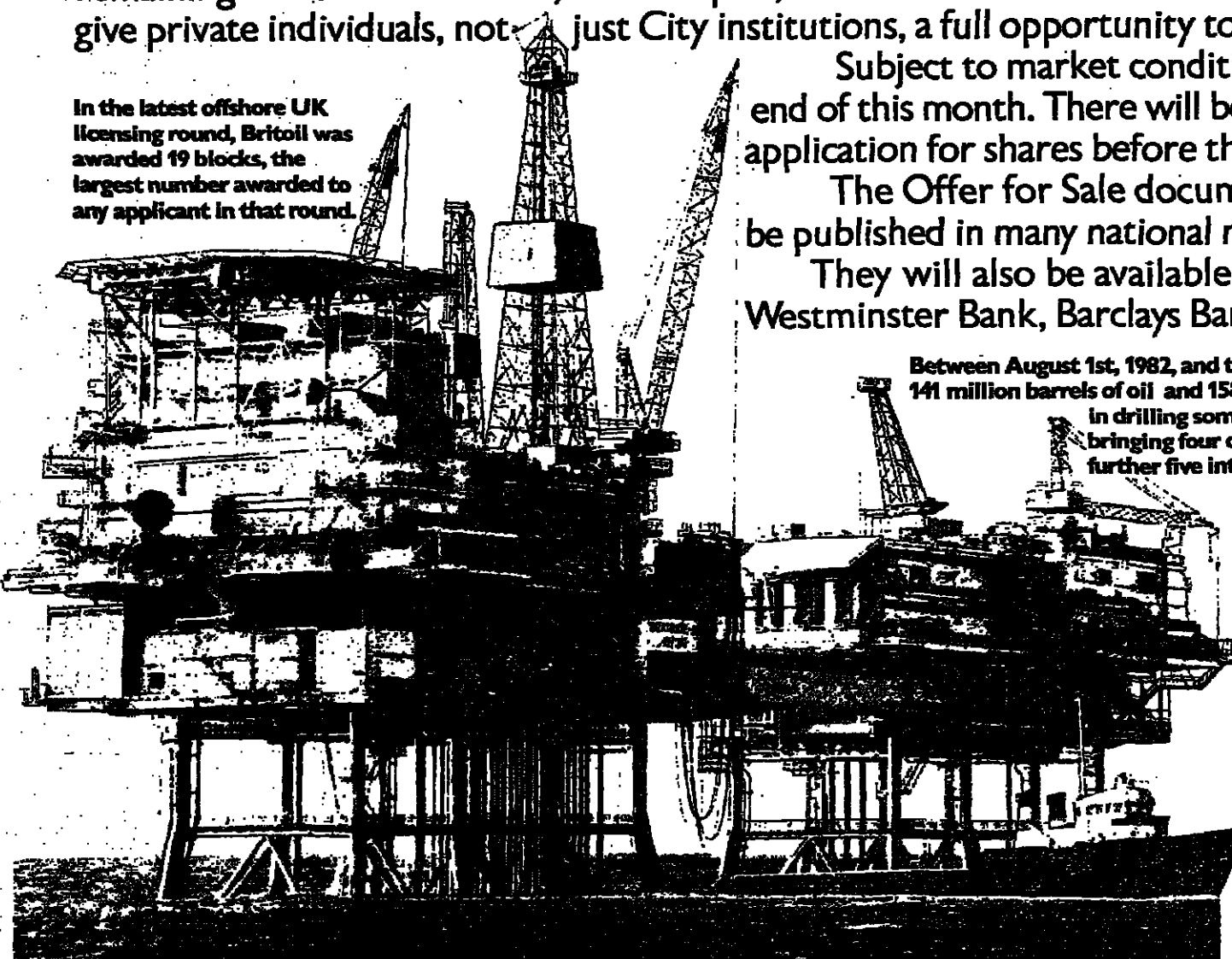
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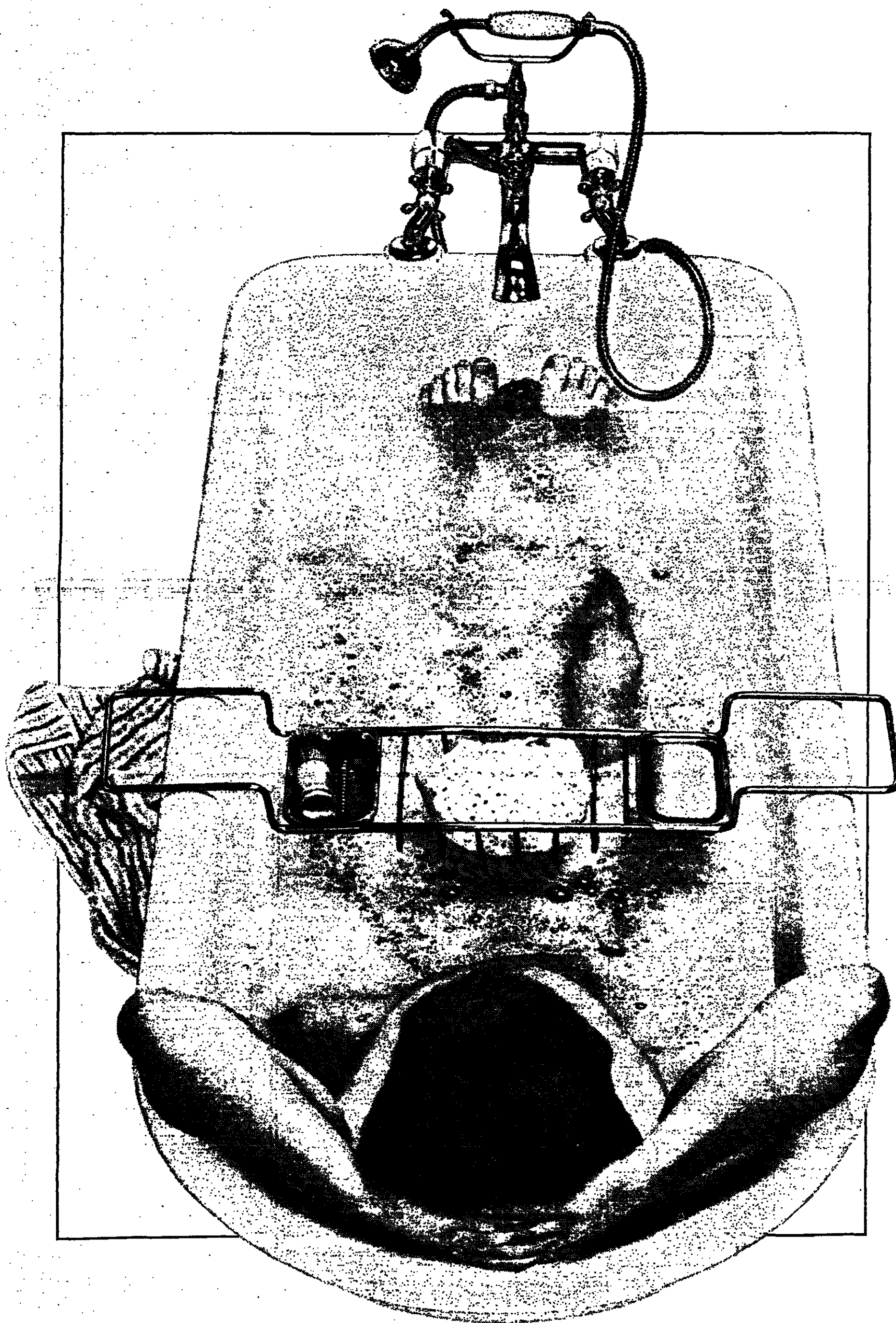
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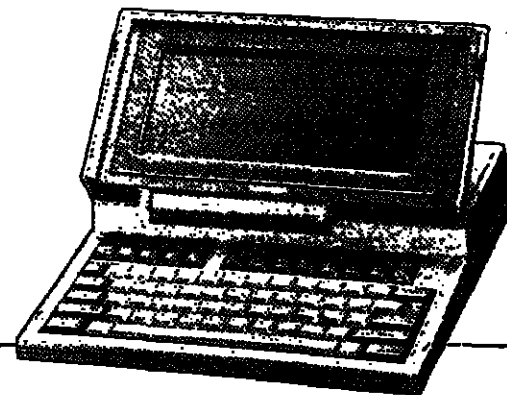
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Monday July 22 1985

European imperatives

The inter-governmental conference between the member states of the European Community which convenes in the autumn, and which will be prepared by today's meeting of the foreign ministers, will be the Community's most politically charged negotiation since the great bust-up between France and the Five 20 years ago. Tidy-minded bureaucrats will do their best to reduce it to a negotiation on technicalities and legal formulae. But these technicalities will only be the superficial symbols of the central question facing the governments: what kind of Europe do they really want?

On the surface, the negotiation will be about majority voting in the Council of Ministers, about the powers of the European Parliament, about the role of the Commission. But just below the surface, governments will be confronting a question of much greater generality: are their common interests and their interdependence now so great and so extensive that they can and must respond by a deliberate and visible step towards a more integrated Community?

What distinguishes this negotiation from the negotiations of 1950 and 1957 is that the Six were a self-selected group of countries which started out with a similar answer to the question; on both occasions Britain answered the question by staying away from the negotiating table. But today several member states will instinctively answer the question in different ways.

Greece currently takes an arm's-length view of its relationship to the rest of Europe, treating the Community primarily as a source of development finance. Denmark, for political and constitutional reasons, has serious reservations about any move which appears to imply a surrender of sovereignty. By contrast, the Benelux countries and Italy are explicitly committed to seeking constitutional changes which would symbolise and strengthen Europe's common interests, even if they have not spelled out precisely what they want. The dilemma of the conference, therefore, is whether it can straddle these divergent attitudes with a package deal which satisfies the Euro-unionists without alienating the reluctant Europeans. For if it concludes without unanimous agreement, the split which emerged in the vote at the Milan summit will turn into a political chasm, with unpredictable consequences.

Britain's alignment with Greece and Denmark at Milan was not just an error and an aberration: it was a denial of reality. Britain is a medium-sized European power like France and Germany, and it has long been obvious that its place is in Europe. Its economy requires access to the European market, and on no important issue are its fundamental interests at variance with those of its European partners. It depends at least as much on Europe for its security as it does on the United States.

Systematic discussion

Moreover, British policies have, over the years, moved substantially into line with these realities. The Government has become one of the keenest advocates, not merely of tighter foreign policy co-ordination between the member states, but also of more systematic discussion of Europe's distinctive security concerns. By the same token, it has been converted to the need to revive the Western European Union defence organisation, and it is one of the strongest supporters of the need for systematic collaboration in arms procurement in Europe. Finally, it has explicitly recognised in the paper delivered to the Fontainebleau summit a year ago, the indissoluble connections between economic integration, political solidarity, and the common defence.

It is therefore extraordinary that the Government should feel impelled to distinguish itself from its major partners in the Community by hanging back, slightly but unmistakably, from the kinds of constitutional change that they are ostensibly seeking. It is sometimes argued that there is a large gap between rhetoric and reality among the Euro-unionists—they do not really mean what they say, witness the recent German veto on a tiny cut in the price of cereals. This is a shallow debating point, and a dangerous one, because it might turn out to be wrong: the fact that they used the veto does not prove that the Germans would not prefer a situation in which such an option was unavailable.

But in any case the reverse gap is manifest in Britain, where the Government's domestic rhetoric on the subject of Europe is much more minimalist than its real policies. It is hard to conceive a more fundamental surrender of the totem of national independence than the commitment to the forward defence of Germany—a commitment France has not yet made—and impossible to reconcile it with a vestigial insistence on the right of national veto in the European Community, which is being sustained much more for rhetorical reasons than because Britain's vital national interests are more likely to be at risk than those of the Euro-unionists.

These discrepancies of rhetorical approach are politically significant, but it is important to recognise that they exist largely in the mind. On practical, nuts-and-bolts issues, the differences between Britain and the Euro-unionists are increasingly differences of emphasis rather than principle. Even on constitutional issues, so heavily symbolic of long-term aspirations, the differences between Britain, France and Germany are probably small: they all recognise that big changes in the Rome Treaty can probably not get through 12 parliaments. But political sensitivity in these negotiations should rule out any gratuitous disparagement of the long-term aspirations of the Euro-unionists, even if they are currently unrealistic.

Moreover, the greater the practical difficulty of securing ratifiable treaty changes, the greater the importance of introducing credible reforms to Community decision-making by methods which are effectively binding even if they fall short of parliamentary ratification. British proposals for "more" majority voting fall in credibility because they would not be binding. In the last resort, there is one reform that a majority of member states can impose: the disavowal of the Luxembourg compromise and the national veto, because it has no legal basis.

On all fundamental issues of principle, British interests coincide most extensively with those of the original Six. If the French Government were to follow the French Socialist Party in endorsing a commitment to the defence of Germany, that match of interests would be even closer. The question is not whether British bureaucrats have made the finest judgment on what is prudent and negotiable in constitutional terms, but whether Britain and the Six, at least, are committed to strengthening their common interests.

HOURS BEFORE South African State President P. W. Botha announced on television that a state of emergency was to be declared in parts of the Transvaal and Eastern Cape, the news was broken before a crowd of 50,000 at the funeral of four slain black activists.

The mourners in the tiny East Cape town of Cradock greeted the development with an audible intake of breath and angry murmuring while the platform of priests, black community leaders and anti-apartheid activists vied in condemnation of this latest tightening of the screws. It comes after 11 months of continuous violence which has led to over 450 deaths, and a mounting climate of insurrection in black townships throughout the country.

The decision, which presages an end to the relative restraint of the authorities, takes place against the background of mounting consumer boycotts against white businesses and the threat of a strike by black miners next week in the country's vital gold and coal mines. The death toll so far has been beneath the 575 dead of the sharper but shorter Soweto rising of 1976.

The state of emergency signals the end of Government hopes that a mixture of repression and reform would serve to blunt what has now been clearly recognised as an unparalleled challenge to the white power structure. It marks the determination of the Government to use the full powers of the police and the army to restore order.

A similar state of emergency was declared on March 30, 1980, a week after the Sharpeville massacre but was lifted after five months. Limited emergency powers were also introduced towards the end of the Soweto rising.

To many it is a mystery that the Government has not already clamped down more severely in the face of unrest which is more widespread and deeply rooted than ever before.

Partly this is because the Government already enjoys draconian powers of arrest, detention and repression under the various internal security and other acts and partly because the Government has sought over the past year to combine a policy of piecemeal reform of "the most discriminatory" aspects of apartheid laws with maintenance of law and order. It has been reluctant to use its full and awesome powers of repression in the hope of widening its support, especially amongst Coloureds and Asians.

Thus far it has fallen between two stools. It has not been bold enough in its reforms to attract support from the majority black community deeply angered by their exclusion from representation under the new constitution. It has not been ruthless enough to prevent the rise of black political consciousness and organisation in the townships and rising black self-confidence under young and fearless leaders.

The new policy is likely to



President Botha (left) and Saturday's funeral for four black activists at Cradock in the Eastern Cape (right).



be aimed at seeking out and neutralising the unofficial leaders of black student, community and political groups, including highly politicised priests. It has many of the hallmarks of an admission of failure.

Certainly that is how it is seen by Dr Frederick Van Zyl Slabbert, leader of the white opposition Federal Progressive Party (FPP). Declaring a state of emergency, he said, is a devastating comment on the outcome of the November 1983 referendum. What was supposed to be the beginning of an

Funerals have become shows of solidarity

era of negotiation and consensus politics has seen us drift steadily into the present state of semi-siege. This government has neither the ability, the plans nor the talent to cope with the demands of genuine reform.

One of the greatest failures of the Afrikaaner-dominated National party government has been its inability to make any progress with its stated aim of attracting responsible and moderate black leaders into the "non-statutory forum" proposed in January by President Botha to discuss the forms of eventual black participation in the political process. The Government blames black agitators and intimidators for frightening off potential participants, and points to attacks on the homes and families of black local councillors and policemen as proof.

This has undoubtedly been a factor. But the main reason why the Government has not been able to attract black leaders into talks on the future of black participation has been the unwillingness of govern-

ments to offer the prospect of real power sharing.

Chief Gatsba Buthezi, leader of 6m Zulus and of the L.L.M. strong Inkatha movement, for example, angrily dismissed President Botha's offer as a lousy crumb from the white man's table. In a major speech last week he made clear that all he is prepared to discuss is a formula for genuine power sharing which will give blacks a say in the raising and spending of revenue and the making of laws.

On Friday Dr Slabbert revealed that since the Government offered to open up the Cabinet committee discussing black political rights and members of other political parties in April, there has been no progress and no participation by the FPP, which accepted the offer with alacrity.

Inability to move forward convincingly towards power sharing has weakened the position of moderate black leaders at the same time as high inflation and rising unemployment has filled the townships with bitter unemployed men and women.

Inflation is currently running at 16 per cent while black unemployment is unofficially acknowledged to be in excess of 3m or more than 25 per cent of the employable black labour force. The economy has been in a steep recession since August last year and is reportedly standing at around 52 cents to the dollar, has only recently recovered from its all time low of 42 cents last January.

The first results of austerity and a weak currency are beginning to show through in higher exports and the gold and other mines are benefiting from their strong rand receipts from exports. The balance of payments has swung strongly into surplus but growth is not expected to resume until the end of this year and even then at a rate insufficient to dent unemployment.

Poverty and unemployment

have coincided with heightened political awareness of black children. The young are in revolt against the inequities of the Bantu education system and the prospect of a lifetime of poverty and alienation in the segregated townships or even worse, the distant homelands. They are increasingly becoming the standard bearers of revolution.

Indeed the coffins of the four local community association activists believed murdered by Latin American-style death squads were carried into the township sports stadium last weekend behind the black, green and gold banner of the African National Congress (ANC) and the red flag with gold hammer and sickle topped by a gold star of the Communist Party of South Africa.

It is precisely this kind of bravado which so worries the white authorities. They fear that what President Botha described in his announcement of the state of emergency as "the utmost patience" shown by the Government so far has been interpreted as weakness and a sign that the Afrikaners no longer have the will or ability to impose their order.

But the banners of the ANC and the Communist Party were not the only signs that black society has become as emboldened as the Polish workers' Solidarity movement in the imposition of martial law in Poland 1981.

Other placards prominently displayed carried slogans like "Tambo, we demand AK47's and bazookas. We are ready or 'Business and military same side of a bloody coin.'" (Oliver Tambo is the leader in exile of the banned ANC; AK47 assault rifles have become the symbol of armed liberation struggles in Africa and the Third World.) The placards bore eloquent witness to the way in which a revolt last September against rent increases in the townships of the Greater Johannesburg area has broadened out into an

attack on the symbols of white authority in the townships.

It is still a subject for debate whether the ANC from its headquarters in Lusaka actually sparked off the current wave of unrest. The evidence suggests that it was taken as much by surprise as the Government. But there is little doubt that the ANC abroad, many of whose internal leaders like Nelson Mandela are in jail, has sought to guide and profit from the strategy of making black townships no-go areas.

The South African government in reply has stepped up

Black councillors were the first targets of violence

its own efforts to seal the frontier to anti-apartheid infiltration, as shown by last month's raid on ANC cadres and safe houses in neighbouring Botswana. Ironically, however, its success in expelling the ANC from its bases in Mozambique after the March 1984 Nkomati accord with Mozambique appears to have led to a greater spirit of self-reliance among anti-apartheid forces inside South Africa itself.

Despite repeated denunciations of the United Democratic Front (UDF) as a front for the ANC, the declaration of a state of emergency has not been accompanied by a ban on the organisation.

Instead the Government has proceeded to arrest UDF leaders over the last six months and three treason trials are currently under way. Until now, however, this hysteria-headed front for over 600 political, student and community associations has shown remarkable resilience. Leaders have been springing up to replace those on trial or in detention.

Declaration of the state of

emergency is recognition that the greatest challenge to white authority comes not from over the border but from the virtual collapse of black local government and the emergence to fill the vacuum of radical political and student organisations. They demand not only better schools, housing and facilities but political power at a local and national level.

The first targets of the violence in black townships were the black councillors who were placed in an impossible position by the failure of the 1983 black local government act to provide the new black town councils with an autonomous fiscal base.

Next in line were the houses of black policemen and on the East Rand alone the homes of 178 black policemen have been destroyed. The net result is that many townships are now policed exclusively by patrols of armoured cars, rallying out from fortified bases, rubbish collection and other services are neglected and many of the former township facilities and shops are burnt and gutted shells.

Without effective local authority or policing the townships have also become the battlegrounds for conflict between rival political groups, especially in the Eastern Cape where in-fighting between supporters of the UDF and the black consciousness Azapo movement has caused dozens of deaths.

The state-run television followed up President Botha's announcement of the state of emergency on Saturday night with film of speakers at the Cradock funeral against the background of the red flag and the hammer and sickle followed by shots of a police informer being kicked to death. This underlined the message that the emergency was designed to prevent subversion, murder and anarchy.

What is not clear at this stage is whether it also signals the end of the Government's policy of "reform" now that 11 months of unrest have demonstrated that what has been offered up to now has been decisively rejected as cosmetic at best by the black majority.

In his proclamation, President Botha said only that it was essential for the situation to be "normalised in such a way that the climate for continued dialogue in the interests of all people in the constitutional, economic and social fields is ensured."

What those bland words ignore is that up to now, there has been no real dialogue between the two sides. The Government has sought to impose its own plans unilaterally.

The two questions hovering over the future are whether increased repression will succeed in dampening revolt or provoke further resistance and whether the Government will now be persuaded to scrap those fundamental apartheid laws like the group areas act, the Bantu Education Act and the pass laws and start to talk convincingly about sharing power with the black majority.

Australia's master brewer

While many people have trouble walking past a pub without dropping in for a quick pint, Alan Bond, *Bete noir* to the New York Yacht Club and the Australian business scene, apparently has the same weakness with breweries.

On Friday the Ealing-born and now Perth-based yachtsman and inveterate takeover expert bid \$450m for half of Castlemaine Toobies, the Sydney and Brisbane brewery company which has about 30 per cent of the local market. It is 25 per cent owned by Allied Lyons which helped bring Castlemaine and Toobies together five years ago.

Castlemaine would sit as part of a matching pair on the Bond Corporation's mantlepiece, with its Swan Brewery in Perth taken over three years ago for \$150m.

The sense of beer industry *deja vu* will be strongest for Lloyd Zampatti, chief executive at Castlemaine and managing director at Swan until Bond took it over. Zampatti is not vehemently opposed to the



"Remember, every soldier can just about carry a Field Marshal's salary increase in his knapsack."

Men and Matters

A\$7.10 a share on offer by his now familiar adversary.

The strength of opposition against the target compared with the \$210m capitalisation of his 54 per cent owned Bond Corporation Group should leave the ebullient and ambitious Bond undazed. He did, of course, achieve the impossible in lifting the America's Cup from the New York Yacht Club in 1983 and makes a habit of borrowing lots of other people's money to mount takeovers, of which the latest is the biggest.

Bond's recipe for success is timing, opportunity, faith, hard work and the ability to analyse the risk and reward equation. "I'm not a gambler," he says, although he went within an ace of going under in the 1974 property squeeze.

In the past 18 months former signwriter Bond has spent \$150m buying into television stations and earlier this year bid \$450m in an unsuccessful effort to get control of Arnotts, the big biscuit maker.

If he gains the debt-free Castlemaine the sky will hardly be the limit. He already owns Airship Industries, the UK group reviving the originals as commercial aircraft.

Dallas continued

The plot of Dallas—the saga of British television politics rather than the TV oil industry soap opera—thickens. Senior staff at Thames Television which ten days ago lost its managing director, Bryan Cowgill, over the ramifications of the issue, are now taking bets that Dallas is saying it will not talk to the BBC.

Worldvision, the American distributors of Dallas, is saying it will not talk to the BBC until there is concrete evidence

in the form of programme purchase that the corporation is not blackballing its other programmes. And the company will not accept a cent less than the \$80,000 an episode in the Thames contract.

Alasdair Milne, BBC director general, says he has no intention of paying that much and is waiting for Worldvision to come to him.

There seems no obvious way out of the impasse at the moment. It will still be a little ironical if Cowgill, who has gone on holiday to recover from the whole affair, will be able to sit at home and watch Dallas on the ITV button in autumn after all.

Revolutionary

If marketing is to be a key to success in the City Revolution—as many people believe—one of the more challenging jobs has gone to Christopher Arrander.

He has just been appointed head of business development at Barclays Merchant Bank, the subsidiary clearing bank which is putting together one of the largest of the new City conglomerates with De Zoete and Bevan, the stockbrokers and Wedd Darlacher, the jobbers.

"It certainly sets your adrenalin running," said Arrander of the prospect of plunging into the uncharted waters of the City's new markets. But he feels he will have a big advantage with Barclays behind him.

It's a household name for soundness, he said. "It should also give us a good entrée to corporate business, and institutional and personal business too." Arrander, who worked in Saudi Arabia until last week, was withholding comment on precisely how Barclays intends to tackle these opportunities. Arrander, 32, joins BMB from Riyad Bank where he was chief

adviser. Before that he did seven year spells in each of Hill Samuel and Williams and Glyn's. His appointment should make up for some of the defections Barclays has suffered recently in the City hurly burly.

Broken link

An unusual Anglo-German link in the field of engineering is coming to an end. Baker Perkins, the Peterborough-based manufacturer of food processing and printing machinery, is selling the stake it has held for nearly 60 years in Werner and Pfleiderer, a Stuttgart engineering group.

Several years of poor returns from its 30 per cent holding in Werner and growing competition worldwide with the German company in the field of food processing and plastics machinery have persuaded Baker Perkins to pull out. It is selling its holding to Krupp, the West German steel and engineering group, for around \$45m.

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Baker Perkins' earnings from the German company have fallen in recent years to around \$45,000 a year from \$100,000 to \$200,000 during the 1970s. The sale has been held up by the need to gain the approval of the other partners, the Fahr and Werner families. "We could not sell to the highest bidder," Colin Joyce, Baker Perkins finance director says. Baker Perkins injected about \$200,000 into Werner in 1927 in the form of preference shares. It later converted some of the preference equity into a 27 per cent in ordinary shares giving it a total holding of 30 per cent.

Breadwinners

Heard in the City last week: will stay with Thames in spite of debts?

"They're all away on a course—a sandwich course."

Observer

BASE LENDING RATES

A.B.N. Bank	12%	Hill Samuel	\$12%
Allied Dunbar & Co.	12%	C. Hoare & Co.	12%
Allied Irish Bank	12%	Hongkong & Shanghai	12%
American Express Bk.	12%	Johnson Matthey Bkrs.	12%
Bank of America	12%	Kingsley & Co. Ltd.	12%
Bank of Australia	12%	Lloyds Bank	12%
Bank of Calcutta	12%	Edwards & Sons Ltd.	12%
Bank of China	12%	Meghraj & Sons Ltd.	12%
Bank of Ceylon	12%	Midland Bank	12%
Bank of India	12%	Morgan Grenfell	12%
Bank of Ireland	12%	Mount-Credit Corp.	12%
Bank of Japan	12%	National Bk of Kuwait	12%
Bank of Korea	12%	National Girobank	12%
Bank of London	12%	National Westminster	12%
Bank of Mauritius	12%	Northern Bank Ltd.	12%
Bank of Mexico	12%	Norwich Gen. Trust	12%
Bank of New York	12%	People's Trust	12%
Bank of Persia	12%	PK Finance Int. (UK)	12%
Bank of Portugal	12%	Provincial Trust Ltd.	12%
Bank of Rangoon	12%	R. Raphael & Sons	12%
Bank of Sarawak	12%	Roxburgh & Guaranty	12%
Bank of Singapore	12%	Royal Bank of Scotland	12%
Bank of Siam	12%	Royal Trust Co. Canada	12%
Bank of South Africa	12%	J. Henry Schroder Wagg	12%
Bank of Swatow	12%	Standard Chartered	12%
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Bank of Tokyo	12%	Trustee Savings Bank	12%
Bank of Union	12%	United Bank of Kuwait	12%
Bank of Victoria	12%	United Mizrahi Bank	12%
Bank of Western Australia	12%	Westpac Banking Corp.	12%
Bank of Zanzibar	12%	Whiteaway Laidlaw	12%
Bank of Zeylan	12%	Williams & Glyn's	12%
Bank of Zeylan	12%	Yorkshire Bank	12%

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FOREIGN AFFAIRS

Straws in the Russian wind

By Ian Davidson

THE greatest virtue of the secrecy of the Soviet system is that it offers almost unlimited room for speculation by Western commentators. It makes jobs for Kremlinologists, and it is these speculations, their most unconventional interpretations, which hit the headlines.

That may be because so many Kremlinologists are Americans, and America loves a mystery. Yet conventional interpretations are normally safer as a starting point, because they are more plausible.

Thus, when Mr Yuri Andropov became party boss on the death of Mr Brezhnev, some watchers commented on his reported passion for jazz and Scotch whisky (or was it Bach and brandy?), and drew the exciting conclusion that the new man would turn out to be a pro-Western liberal. It did not take long to discover that one of the leading characteristics of the man who had headed the KGB was that of a disciplinarian. Not very surprising.

Similarly, when Mr Andrei Gromyko was moved upstairs to be the new President earlier this year, and replaced as Foreign Minister by the unknown Mr Eduard Shevardnadze, some watchers commented on the fact that his experience of foreign affairs was extremely limited, and confined to a handful of countries in the Third World. They also drew the dramatic conclusion that his appointment signalled a switch in the foreign policy priorities of the Soviet Union from the traditional superpower relationship, running through Western Europe, to emphasis on the Third World.

This line was reinforced by the parallel speculation, derived partly from the impression of total rigidity in the Soviet position in the Geneva arms control negotiations, that the Moscow leadership had abandoned any hope of desire for a better business relationship with President Reagan's Administration, and was banking down to wait for his successor.

Yet no sooner was the ink dry on these extreme notions, than Washington announced, and Moscow confirmed, that Mr Gorbachev and President Reagan would meet in Geneva in November. Moreover, Mr Gorbachev is also going to visit Paris in the autumn.

One possible inference is that the objectives of the international environment, as well as the internal political dynamic of the Soviet system, impose a certain constancy on the priorities in Soviet foreign policy which cannot lightly be rearranged at the predilection, real or imaginary, of any new leader. The speed with which Mr Gorbachev has established his personal dominance through a sweeping purge of leading members of the old hierarchy, may have surprised and impressed Western observers; but the system over which he presides is still a collectivist system.

The constants in Soviet foreign policy preoccupations must include, and in all probability must be headed by, the superpower relationship, because that is the relationship which encompasses the greatest potential uncertainties and even dangers for them—as for the rest of us.

The Russians may not like what little they understand of the Reagan Administration, they may not see with confidence any good way to get hooks into President Reagan's "Star Wars" anti-missile research programme, and they may believe that will be very difficult to do any advantageous business with such a visceral anti-Communist. But it is stretching credulity to suppose that they can safely neglect the American problem for another three years or more. Such an option would be even more difficult for a new leader than for an old one.

The second constant in Soviet foreign preoccupations must be the East European empire, because the vassal states are, in varying degrees and at various times, a permanent state of ferment against the Soviet overlords. And the third constant must be Western Europe, partly because of its importance to the Atlantic Alliance, partly because, with the East, it is the centre of its proximity and its economic strength give it large potential influence on developments in Eastern Europe.

Mr Gorbachev has already been to Eastern Europe, on a visit to Warsaw. The fact that he is also going to meet President Reagan and President Mitterrand would appear to confirm the constancy of Soviet priorities.



Mr Mikhail Gorbachev

Hugh Houldred

But the interesting thing about the planned Geneva summit with President Reagan, is that it appears to have been agreed without a settled agenda for negotiation, to say nothing of a pre-cooked agreement on any issue, however minor. And since President Reagan has been openly pleading for such a meeting for a long time, it is evident that the final decision to give the idea the go-ahead was made, after some reflection, by Mr Gorbachev.

What this suggests is that Mr Gorbachev and his colleagues in the Politburo have decided that they are either going to do something with the Americans, or they are going to do something to the Americans—one or the other—on the big strategic issue which overwhelmingly dominates all others in the superpower relationship, nuclear weaponry and arms control.

Naturally, the meeting may cover a lot of other ground as well: the Middle East, Afghanistan, U.S. grain sales, human rights, who knows? But for the Russians, and by November for the Americans when the mid-term elections will be only a year away, the central topic is bound to be arms control.

Doing something with the Americans would mean making a serious attempt to unpuzzle the Geneva talks with a view to moving towards a negotiable agreement under this option the November summit might perform an analogous function to the 1974 meeting between President Gerald Ford and President Brezhnev in Vladivostok, which checked out the basic framework for the Strategic Arms Limitation Treaty (Salt) which was finally negotiated in 1979.

Doing something to the Americans would mean refash-

ioning the Soviet arms control posture in terms sufficiently attractive to Western European governments and to Democrats in the U.S., that it would either exert serious and embarrassing pressure on Ronald Reagan, or else provoke profound disension within the Atlantic Alliance. These apparently alternative strategies could be combined in one, to be played either way.

The reason for this unreliable prediction is, of course, "Star Wars." President Reagan may or may not be content with a meeting which turns out to be little more than an amiable get-together, a media event to charm and reassure the American electorate but without any policy consequences. But Mr Gorbachev can hardly contemplate a meeting with President Reagan which, by its effective silence on the subject of "Star Wars," could be interpreted as tacit acquiescence in the legitimacy both of the American research programme by implication, of the strategic aspirations which he behind it.

If this is the Gorbachev strategy, then it calls for quite a profound re-think of the Soviet posture, certainly on the subject of nuclear weapons reductions, and probably on the subject of the American "Star Wars" research programme as well. For if the Soviet Union seriously wants a nuclear weapons agreement with the U.S., it will have to come to terms with the fact that "Star Wars" as a laboratory research programme, cannot be banned by treaty, because compliance with such a ban could not be verified—at least not by any means that would be acceptable to the security-obsessed Russians.

On the other hand, if the Soviet Union merely wants to split the Atlantic Alliance, by representing "Star Wars" as the ostensible obstacle to a nuclear arms deal, it must at least be able to pretend that it is prepared to offer a deeper and therefore more attractive reduction in the superpowers' arsenals than the U.S. At present this is simply not the case. The U.S. is proposing, as it did in the abortive Start negotiations of 1983, a one-third cut in ballistic missile warheads to a maximum of 5,000 on each side.

By contrast, the Soviet Union

is only talking rather vaguely in public about a 25 per cent cut in nuclear weapons, which corresponds broadly to its proposals in the Start talks, but it has not tabled that proposal in Geneva. To exert real propaganda pressure, it needs to be able to match, or even exceed, the U.S. offer.

It is not, of course, necessary that such a dramatically improved Soviet offer be seriously meant; it could well be protected by a wall of impossible conditions so as to restrict it to propaganda purposes. But even to go through the motions of such an offer could imply a serious wrench to vested bureaucratic interests in the Soviet Union. The significance of the November date may therefore be that it sets a sufficiently distant deadline for the Soviet offer, as the pressure, but permits enough time for the Soviet bureaucracy to go through its internal negotiations.

All this is, of course, very far-fetched. Yet it so happens that there have been a few tiny straws in the wind which may not be entirely inconsistent with such a double strategy. First, the New York Times has reported that Soviet negotiators in Geneva have indicated that Moscow might be prepared to acquiesce in anti-missile research. The Russians quickly denied the report, but they would not deny it either.

Second, General Nikolai Chervov, head of arms control for the Soviet general staff, told a visiting U.S. Congressman that the Soviet offer of a 35 per cent cut in nuclear weapons could apply to warheads as well as to missiles. If confirmed in Geneva, this could be the start of a fundamental shift in the Soviet position, because it is the multiple warheads on the Soviet heavy missiles which chiefly worry the Americans.

Now time may yet show that these are not so much straws in the wind as kites, which Mr Gorbachev may be flying to see what the response is. They certainly do not commit him to anything yet. But you can be quite sure that he is not going to Geneva to have his picture taken. And what about the reported rehabilitation of Marshal Ogarkov, who was given the heave-ho last year? You'd better ask a Kremlinologist...

Lombard

Recycling the global surplus

By Anatole Kaletsky

LOTTERY winners are well known to be an easy prey for financial bucksters. At best they hand their windfalls over to professional managers, which simply means buying financial instruments from other financial institutions—and that is when trouble begins.

Ever since the first oil shock of 1973, a cloud of "managed" money has been drifting around the world, first showering riches and then unleashing economic squalls wherever it happened to descend. The cloud first wafted from the Middle East to the international banks in New York and London and from there to Latin America. These days, the cloud forms above the industrial centres of Japan and carries money across the Pacific to the U.S. Treasury in Washington, casting its shadow over most of U.S. industry as it passes.

Nations which have more money than they know what to do with, place it in international financial markets. This kind of financial investment does not have any automatic link with real productive investment, particularly when the markets concerned interpose ever greater numbers of layers in the form of options, futures and currency swaps, between the ultimate suppliers and users of funds.

The savers in Saudi Arabia or Japan become so remote from the borrowers in Brazil or Atlanta, that there is no reason to suppose that anything in the way of productive assets will be created with which to pay back the saver.

Back in 1973, when people had less faith than they do today in the perfect omniscience of financial markets, this problem was at least discussed. "Recycling petrodollars" was correctly perceived as the central economic challenge posed by the oil crisis and by a combination of luck and judgement. Nations belonging to the Organisation of Petroleum Exporting Countries were persuaded to deploy their new-found wealth in a reasonably helpful manner.

Between 1974 and 1976, Opec put 35 per cent of its surpluses into special bilateral and multi-

lateral loans to oil-importing countries and placed a further 51 per cent in government securities and bank deposits. About two-thirds of this money was on-lent to finance current account deficits in industrialised countries, with about one-third left over for the Third World.

When Opec came back for more in 1979, however, the world decided to leave the whole responsibility for recycling to market forces in the international banking system. In fact, industrialised countries deliberately adopted perverse macroeconomic policies designed to prevent their current account deficits from rising to accommodate Opec's surpluses.

As a result, the Third World was left to borrow two-thirds of the oil windfalls through the international banks; non-oil developing countries increased their annual deficits by \$44bn (\$31.5bn) between 1977-78 and 1978-81, while Opec's surplus increased by \$51bn.

In 1982, of course, the crisis in Mexico and Argentina suddenly blew the money cloud away from Latin America and showered temporary blessings on the U.S. Government and its consumers as the U.S. banks channelled massive capital inflows into dollars. The strong dollar and record U.S. growth soon channelled much of the surplus money into Japan's current account.

The strong dollar tempted Washington to go on spending and before long the money cloud was hanging over Tokyo in the form of an unprecedented current account surplus.

In the next few years, the Japanese current account surplus will present a problem of recycling as serious as the Opec surpluses of the 1970s.

The stampede of Japanese investment institutions into dollar securities on the false prospectus of a supply side revolution in the U.S. economy was only a temporary solution. In the end, unless the leaders of the industrialised countries face up to the need for a truly global macroeconomic policy, financial markets alone can shift the problems created by current account imbalances from one part of the world to another but they do not seem capable of solving them.

Learn another language

From the Chairman of the Franco-British Council (British Section)

Sir,—Mr David Lascelles's plea in your issue of July 12 for longer English as the best way of communicating with foreigners was perhaps not meant entirely seriously. I certainly hope not. All the same it represented a point of view not unusual, at least in some business circles, but which I believe to be profoundly misguided and indeed dangerous.

Of course it is true that English is now the most usual second language, just as Latin and then French used to be, and that much of the world's commerce is conducted in English. It is also true that the teaching of foreign languages in Britain is in decline, largely, in my view, due to the fact that even our oldest universities now no longer require competence in another language in order to qualify for entry and that business attaches little importance to linguistic ability. It is absurd to create knowledge of foreign languages with scientific or athletic ability. After all, even quite uneducated and stupid foreigners somehow learn their own languages, after a fashion at least and although the Tower of Babel had no divine blessing, its results are everywhere apparent.

Why should the British be uniquely privileged to ignore them? Who can doubt that someone who knows the language of a country is better placed for doing business in it than one who does not? Without some knowledge of a person's native language and consequent understanding of his culture it is easy to misunderstand what he means even if he is himself speaking English.

To focus just on the situation near at hand, Britain is now a member of the European Community in which we are a quite small minority but in whose development our major commercial and political interests must reside. Of course the European market with all its

Letters to the Editor

challenge and opportunity would still exist even if we were not members of the Community. In fact, few people now deny the need to encourage greater European unity and most accept that language differences are a handicap to progress.

It is my belief that many of our much publicised arguments with our European partners stem from our own failure to make the necessary major effort, including study of languages, to adapt ourselves to our European destiny. For example, I wish that the Ministers of Education in the Community could agree that all university students should spend at least a term in a university of another Common Market country. Such a rule would transform language teaching in Britain: it would also be a major step towards creating a truly European intelligentsia.

We all laugh when in Pygmalion Dr Doolittle plaintively enquires why women cannot be more like men. Let us not adopt the same ridiculous attitude where foreigners are concerned, but on the contrary try harder to learn at least the main European languages and acquire thereby a better ability to communicate to understand and to sell. Political, cultural and commercial arguments all lead inexorably to this conclusion.

Sir Philip de Zulueta,
6, John Street,
London, WC1N 2ES.

The bureaucratic British

From David M. Field,
Stena Fellow (F.R.S.),
Sir,—I would like to expand on Professor Forrester's report referred to by Michael Dixon on July 15 that many British com-

panies remain too bureaucratic to be a fitting environment for business graduates. The American business culture is more task-orientated and responsive to conceptual thinking than that of the British, which is more orientated and fact-following. It is not surprising, therefore, that the American culture has developed and can use MBAs with their broad education while the British prefer to attach specific labels to individuals according to their training and experience. However, the British culture shows signs of changing, so MBAs might yet have their day on this side of the Atlantic.

Oaklands,
Weston Underwood,
Obay, Bucks,
MK46 5JS.

EEC sugar prices

From the deputy director-general, Food Manufacturers' Federation

Sir,—We would like to add our support to the sentiments expressed by Mr Hamish McDonald in his letter (July 10) about EEC sugar prices. The idea has been studiously put about by the authorities in Brussels that the EEC's sugar regime is a model of agricultural market management because it is "self-financing."

Not only is this misleading in the sense that the consumer is paying for the extravagance of a regime which gives a guaranteed price for surplus production, year after year: it is also dangerous in that it tends to make people think the regime does not have to be accountable to market realities.

When the EEC Commission comes forward with its review proposals for sugar in a few months' time, it should take the opportunity to impose greater reality by:

- changing the basis of the regime so that it becomes a price-managed regime rather than a quota-managed regime;
- ending the practice of using the storage levy scheme to pay for carryover stocks of surplus sugar;
- abolishing the UK regional deficit premium (we are no longer in deficit in sugar).

Logic of the CAP
CAP

From Mr A. W. Tucker,
Director, Westcoast Foods

Sir,—I need help. I used to have problems understanding the logic of the CAP and I now find it even harder to grasp. Years ago studies were showing that the net cost of direct income support was actually very close to price support, the difference being only the method of collection. The argument was made (and is) that farmers did not want handouts but wanted reasonable prices to secure a reasonable income.

I would like to know why we cannot have direct income support by member countries at an agreed level with the maintenance of MCA's. Prices would be reduced, surpluses could be sold without third country subsidy and the ridiculous administrative and financial charges would be reduced considerably.

If anybody thinks that EEC countries are not pursuing nationalistic interests at present, look at the subsidised loans currently on offer to third countries to help their meat exporters in France and Ireland to sell in these markets. A European market could be maintained without the need for quotas and other superficial instruments. But then of course, the CAP would be financed from the taxpayer instead of the food buyer and that would never do... As we say in the meat trade—England for the British and Europe for the French.

Andy Tucker
Westminster Buildings,
Theatre Square,
Nottingham.

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From the director of forecasting Business International
Sir,—Much nonsense is being talked about what Anatole Kaletsky (June 26) calls "America's role in generating the export-led growth of other countries." Unfortunately, by reporting without criticism a study by Data Resources (DRI), Mr Kaletsky lends credence to the sadly fashionable view that "the U.S. market has accounted for the whole of the growth of exports in 1984 from Germany, Italy, Belgium..." As yet, I have not seen the DRI study, but I can assure you that the statement is highly misleading or plain false, depending on its interpretation.

This is not to say that DRI has got its sums wrong. The problem is actually an intriguing one of differing perceptions. For if the discussion is conducted in terms of U.S. dollars, then the fashionable view can appear to be correct. In the table, the left-hand column gives the value increase in dollars of German exports between 1983 and 1984 (source: OECD Statistics of Foreign Trade). On these figures, the increase in German exports to the U.S. last year was actually greater than the increase in total German exports. However, consider the figures in the right-hand column. These are for the

changes in value of German exports in Deutsche mark terms (source: the Monthly Report of the Bundesbank). On the Bundesbank figures, the increase in German exports to the U.S. was merely one quarter of the total increase and less than half the increase in German exports to Western Europe.

German Exports 1983-84 (increase in value)		
	\$ bn	DM bn
Total	2.3	55.9
To U.S.	3.6	14.0
To Europe	0.8	35.4
To Opec	-2.6	-3.6

Two points need to be made. First, the figures in dollar terms embody large distortions

because of the marked rise of the dollar against the EMS currencies. In particular, they misrepresent the rise in German exports to Western Europe. Second, the DM figures, though in value terms, give a far better idea of the volume changes (in DM terms, German export prices rose only 3.4 per cent last year) and so give a much fairer picture of the actual stimulus received by Germany's economy from its trade partners. Of course, the U.S. role has been a real one but its relative significance has been greatly exaggerated.

Ian Riley,
Benda House, Cambridge Grove,
W6.



FINANCIAL TIMES

Monday July 22 1985

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Terry Byland on
Wall Street

Banks on the crest of a wave

THE BATCH of second quarter results from the U.S. money centre banks has confirmed them in their restored role as Wall Street's favourite sons - with the notable exception of BankAmerica, whose parentage is, perhaps, less widely claimed.

Overall, the results announced over the past fortnight were "truly outstanding," says Mr. Thomas Hanley, bank analyst at Salomon Brothers. Gains in net earnings ranged from 20 per cent to 45 per cent at Citicorp, Chase Manhattan, Chemical NY, Bankers Trust and J. P. Morgan.

The stocks have strongly outperformed the rest of the market since the final quarter of last year, as falling inflation and interest rates have boosted the financial sector. Stock prices have, not unnaturally, lunged during the results season. Investors and brokerage analysts are now assessing the prospects for stock prices for the coming six months.

The second quarter figures offer some guide for the rest of the year. But the major Wall Street firms are not changing their predictions for the full 12 months, which are for a gain of around 17 per cent in earnings. Such forecasts indicate the degree to which the profit recovery is based on severely depressed 1984 figures.

Declining interest rates are the factor most quoted by the banks for their good fortune in the second quarter. U.S. consumers have continued to spend heavily, boosting their bank accounts with readily available bank credit.

Earnings benefited over the past six months from plunging rates in the money markets during a period when banks were able to keep rates high on consumer loans.

Also significant for bank profits have been the gains in prices of U.S. federal bonds, which figure strongly in bank portfolios. Chemical NY earned \$98.8m from sales of securities, \$3m more than in the comparable period, while Citicorp turned a loss of \$5m in securities trading into a profit of \$4m.

Similarly, foreign exchange trading has been very profitable for the money-centre banks since the U.S. dollar has been the subject of persistent speculation. Income from such sources jumped by 85 per cent at Chemical, while J. P. Morgan turned a loss of \$15m into a profit of \$45.6m.

Mr. Hanley believes major bank stocks are still cheap compared with industrial stocks. Price/earnings ratios on bank stocks are only about 60 per cent of that on the Standard & Poor's 500 Index, based on 1986 profit forecasts. Salomon Bros expects that gap to narrow to put bank p/e ratios at 70 per cent to 80 per cent of the S & P ratio over the six months.

However, there is another side to the banking results. The banks pleased the federal regulators with their readiness to curb earnings by increasing loan loss provisions. Chase, Bankers Trust and Chemical applied nearly as much of their increased operating profit for the second quarter to loan provisions as they did to earnings.

Yet Mr. Mark Biderman of Oppenheimer notes that stock in J. P. Morgan weakened on the disclosure that loss provisions jumped from \$30m to \$90m between the first and second quarters. Oppenheimer regards the increased provisions as a positive factor, but the stock market sees them as a warning of higher loan losses ahead.

Nor can the shocks at BankAmerica, until a few years ago the largest bank in the U.S., be ignored by the rest of the industry. It cannot be the only U.S. bank struggling with the effects of "disinflation, dollar volatility, the uneven (U.S.) recovery," to quote Mr. Sam Armacost, BankAmerica's chief executive.

Bank earnings could be held back in the second half if further increases in loss provisions are required. A slowdown in the U.S. economy could mean problems for the banks' loans to the farming, manufacturing and mortgage sectors.

Also, over the entire profits outlook from the Latin American debt crisis, which were assigned back-stage in the second quarter but will continue to haunt the industry. Responding to the federal regulators, the banks refrained from booking the delinquent interest payments from Argentina to second quarter profits. But overseas debt problems will return, and they could catch the bank stocks in less favourable circumstances.

Richard Evans reports on city life near Iraq's war front

Morale under siege in Basra

THE SOUTHERN Iraqi port of Basra is a city under siege. Along the pavements, high walls of sandbags, many shredded by shrapnel, have been constructed to offer pedestrians and shop windows a degree of protection in case of unexpected attack. In the background there is the sound of heavy artillery from the front, 15 miles away on the Iranian border.

Once a boom town and Iraq's premier port, the city is now in suspended animation awaiting the next Iranian attack and maintaining as normal a life as it can.

Basra is the prize the Iranians are desperate to claim as the war with Iraq approaches its fifth anniversary and appears more bogged down in stalemate than ever. Its capture would throw into confusion and probably topple the regime of President Saddam Hussein. The Iraqis are therefore determined to defend it at any cost.

The 600-mile drive from Baghdad to Basra reveals a country fully

mobilised for war. The road south of Amara passes close to the Iraq-Iran border and hundreds of anti-aircraft and anti-tank gun emplacements are perched on earth mounds.

In a costly offensive through the Hawziah Marshes north of Basra in March, Iran sought to outflank the formidable Iraqi defensive wall. They succeeded briefly in cutting the vital road link with Baghdad, near the confluence of the Tigris and Euphrates rivers, but were soon pushed back to the border.

Since then, substantial improvements have been made to the Iraqi defences with the building of a 15 mile earth wall stretching between Amara and Basra, topped with numerous gun emplacements and tank ramps. Some of the marshes have also been flooded to make the scrubland more difficult for Iranian armour to penetrate.

What the Iraqis can do nothing about, though, is the constant

threat of artillery bombardment on Basra. Keeping the city alive as it suffers frequent random shelling has taken on the highest political significance, and a constant stream of supply trucks makes the journey from Baghdad in an effort to maintain as normal a life as possible.

The authorities' tactic is to persuade the population that the war of attrition with Iran - with them in the front line - is wholly worthwhile.

The role of civilians as war heroes is emphasised and casualties are referred to always as martyrs. In the Museum of the Martyrs of Persian Aggressive Shelling in the city centre, personal effects and photographs of many of the 600 who have died in the five years of shelling are displayed.

The tactic has succeeded remarkably well. Prestige hotels such as the Basra Sheraton remain open despite a low occupancy rate and a bar sandbagged inside and out. Most shops remain in business,

however curtailed trade might be. Fawzi Rashid Abdullah, the civilian governor of Basra, claims that no schools, hospitals, factories or government buildings have closed because of the bombardments, which on occasion have exceeded 800 shells a day.

Officially about 1m people still live in Basra and the authorities insist that no one has fled. The name of the game is to maintain morale as in the London blitz. Yet empty houses can be seen everywhere, many with shell or shrapnel damage, and there is no prospect of a normal commercial life until the war is over.

At present the stalemate seems to be more entrenched than ever. Iran appears to retain the will to continue the religious and political war but lacks the capacity to achieve victory. Iraq has no broadly defined objective other than peace but is unable to use its military advantage to force the Ayatollah Khomeini to the negotiating table.

Foreign ministers face renewed rift on EEC treaty amendments

BY QUENTIN PEEL IN BRUSSELS

EEC Foreign Ministers must today try to patch up the rift in the Community, which opened at last month's Milan summit, when Britain, Denmark and Greece were outvoted by the other seven members on the question of holding a full-scale conference to amend the Treaty of Rome.

All the key questions which split the summit, including ways of speeding up decision-making in the Community, on limiting the powers of national veto, and on extending the role of the European Parliament and the European Commission are once again on the agenda for the Foreign Ministers' meeting in Brussels.

Although the fact that a conference is expected to open in mid-September now seems to be accepted,

ed, the agenda and any consensus on the way it should progress are still in dispute.

Both Denmark and Greece remain strongly opposed to any amendments to the Treaty of Rome, the founding document of the Community, which puts the unanimous agreement that will be required in September in grave doubt.

On the other hand, Mrs Margaret Thatcher, the British Prime Minister, has refused to rule out any treaty amendments, while making it clear that she doubts whether any clear conclusion can be reached.

The widest agreement on the need for a treaty change concerns Article 100, which lays down that any decision on removing legal barriers to a genuine common market must be unanimous; most member

states agree that many more decisions on such questions could be taken by qualified majority voting. Where they affect direct taxation measures, however, few countries would want to change the unanimity rule.

The Foreign Ministers will also be asked to agree on immediate changes in their procedures as proposed by Britain to speed up decision making without formal treaty amendment. These were dropped at the Milan summit after the row over the decision to call a conference.

The moves include a political agreement to enforce more majority voting and to use abstention where unanimity is required.

Editorial comment, Page 12

E. German borrowing soars this year

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

FIGURES published by the Bank for International Settlements (BIS) today suggest an answer to one of the great Euromarket mysteries of 1985 - namely the sudden upsurge of borrowing by East Germany.

They show that East Germany, which has raised \$1.1bn on the Eurocredit market this year compared with \$563m in the whole of 1984, started 1985 with a heavy concentration of short-term borrowing in its international debt profile. Of \$346m owed to Western banks at the end of last year, no less than \$3.76 or 44 per cent was due within 12 months.

Although they receive very little direct information on the purpose behind East German borrowing, Western bankers now believe that one reason could be the need for

protection against excessive reliance on the short-term market. "They are replacing short-term debt with long-term debt," says Mr Jan Vanous, a Washington-based economist.

Mr Vanous stresses that this does not imply any suggestion of forced rescheduling - East Germany's reserves with Western banks at the end of last year were a comfortable \$4.5bn - but given the favourable rates now available it makes sense to improve the maturity structure of its foreign debt.

This is all the more the case in that many bankers believe East Germany is poised to begin substantial imports of plant and technology from the West under its five year plan starting next year. That would necessitate a rundown of re-

serves or a further build-up of foreign debt, either of which could be risky, while the short-term debt component remains very high.

The BIS published the figures for East Germany as part of its regular six-monthly review of the maturity distribution of international bank lending. The figures also show a predictable fall in undisbursed credit commitments by banks to non-oil exporting developing countries. These dropped by \$58m to \$35.4bn in the second half of last year which "reflects banks' reluctance to lend to many countries in this group," the BIS said.

There was also a \$4bn decline to \$29.4bn in unused commitments to smaller developed countries.

Euromarkets, Page 15

UK and Ireland close to agreement on Ulster

Continued from Page 1

based on the principle of acceptability to both communities in the north, which would necessarily involve powersharing.

The most thorny area still to be resolved centres, inevitably, on security and justice, where the following measures are still being negotiated:

- Linkage between the judicial systems of north and south in which a southern judge would sit with two northern judges in the north, or a northern judge with two southern judges in the south, in terrorist trials.

- Reform of the Ulster Defence Regiment, including more training, phasing out of part-timers and more stringent vetting of recruits.
- Harmonisation of methods of police accountability with some re-

forms in the northern police authority.

- Improvements in policing methods, particularly in areas heavily dominated by one or other community.

The British Government believes these are all long-term issues which should be resolved gradually by negotiation and should not form part of an agreement with the Irish Government. Dublin is pressing for radical - and visible - changes which it wants included in the agreement.

Underwriting the whole package is a pledge from President Reagan to set up a fund - the figure of \$500m has been suggested - for aid to both parts of Ireland, together with substantial incentives for U.S. companies investing in the Republic or in Ulster. Substantial aid is also expected from the EEC.

Franco-German defence policy

Continued from Page 1

An important factor encouraging the French Government to strengthen its defence ties with West Germany is the hope of sharing the increasingly heavy burden of equipment costs - from a military observation satellite to the proposed European fighter aircraft with the West Germans.

Partners in the European fighter project are particularly nervous that President Mitterrand will find political blandishments to woo Chancellor Kohl into supporting the French concept of the plan, which his defence ministry has rejected. President Mitterrand also has immediate domestic political reasons for seeking closer military ties with West Germany. His Government is expected to come under heavy attack from the opposition in the autumn over expenditure cuts in the defence budget.

Italian lira devalued

Continued from Page 1

EMS realignment "allows the Italian economy a margin of space to reabsorb losses of competitiveness which would not have been corrected by mere domestic economic measures."

Dr Tietmeyer stressed on Saturday that the new economic measures, which could well be diluted in parliamentary debate, are to be "closely observed by Italy's EMS partners. They aim to raise extra revenue of L5,400bn through measures which in many cases reflect simply a speeding up of social security contributions by employers, or of advance payments by citizens already taking advantage of an am-

nesty on illegal construction. There are also L5,600bn of spending cuts.

Friday's turmoil in the foreign exchange markets has caused immense embarrassment in Rome, and Prime Minister Ciriaco De Mita has called for a full investigation of apparently botched lines of communication between the Bank of Italy and ENI, the state energy group.

The currency crisis was seemingly precipitated by ENI acquiring \$12bn on the Milan market. This put immense pressure on the lira without, according to Sig Goria, ENI having any urgent need for the dollars.

THE LEX COLUMN

Creepers on the Chinese Wall

The most feared individual in the multi-capacity City institution of the future will not be the chairman or the personnel manager but the compliance officer. A familiar figure on Wall Street, this pillar of rectitude will be expected to ensure that conflicts of interest within diversified financial groups are not exploited to the detriment of clients, or anyone else for that matter. At the moment, it is not much of a job. The City of London and its watchdogs are still undecided about the rules with which the compliance officer will make everyone comply.

There is sharp division not only about where the balance should be struck between self-policing and external regulation but also about the approach that should be taken towards the creation of a rulebook. Those who believe that hard and fast rules are impossible to apply in a rapidly evolving market are nearly matched by those who argue that it is in a rapidly evolving market that you most need the rules.

The City will presumably chart its usual middle way between these two positions. Since existing conflicts of interest will be greatly augmented by the creation of a principal's function in most large firms, new rules will need to be drafted and enforced. But, those firms argue, undue emphasis on the internal separation of capacity would negate the whole purpose of financial mergers and be unworkable to boot.

The defence of the broad status quo rests on the legitimate presumption that the breach of Chinese Walls would, once discovered, be damaging to client confidence and so against the firm's commercial self-interest. This may be true in some areas. If a research department is perceived to be a servant of a corporate finance department, the research product will rapidly lose its credibility.

Some obvious safeguards can, and almost certainly will, be introduced. A research document should disclose whether the firm has acted in an advisory capacity to the company and whether it has made a market in the company's securities. In that instance, the rough size of the firm's current position should be disclosed. But, for the most part, the strength of the wall between the investment research and corporate finance can be left to the market to judge.

In other areas, the threat of a loss of client confidence may be a powerful but insufficient deterrent. Market-makers, for example, simply cannot be relied upon to act independently of corporate finance.

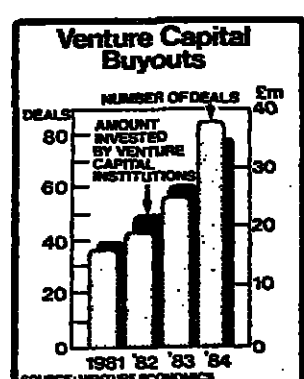
The document lists present and proposed measures which, in the UK Government view, constitute a burden on business. The most important section is that on the proposed legislation, because it is recognised in Brussels that agreement to prune proposed legislation is much more likely than agreement to drop existing rules already adopted as domestic legislation in the member states.

British officials believe that the proposals will attract West German and Dutch support, with other countries presently undecided.

The document proposes to:

- Improve conditions for part-time workers, and put their pay and benefits on the same basis as full-time workers;
- Entitle men and women to parental leave and leave for family reasons;
- Control the misuse of temporary labour, extending much the same protection to temporary as to full-time workers;
- To ensure equal treatment for men and women in self-employed occupations;
- Inform and consult employees in large companies on major decisions (Voting directive); and
- Provide for worker participation at board level (Fifth directive).

In each case, the document recommends scrapping the proposals largely on the grounds that it increases employers' costs, thus reducing competitiveness and potential for jobs.



Dealers may come, and go, as ever increasing transfer fees. But however fragile the goodwill upon which the large triple-capacity firms may have been founded, it would be foolish to suppose that they will fall apart under the strain - commercial or moral. The three-way conflict of principle has been resolved, after a fashion, in other markets. It has been achieved through disclosure, visibility and that quaint old City virtue, probity.

Buyout plan

If the plans of Electra and Candover have anything to do with it, leveraged buyouts in the UK are just about to move up a gear or two. It may be some time before Electra Candover does battle the likes of T. Boone Pickens, or tries to buy anything remotely the size of Gulf Oil, but the scheme to raise £300m for use in UK buyouts certainly raises the stakes.

Of course, the mere existence of a large stand-by facility - which should mean that large deals can in future be executed without tedious consortium building - can itself be expected to stimulate the demand side of the market. As the recent Haden deal demonstrated, a buyout can be the best of takeover defences, if there is time to arrange it. When Haden's management was trying to avoid being absorbed by Trafalgar House, institutional backing for a buyout was an attractive substitute for an alternative bidder. The role of white knight is one that Electra Candover thinks it might profitably cultivate.

In a more relaxed tempo, the move towards corporate steepling in really large groups can make even businesses of some size appear peripheral. BAT's packaging subsidiary, Maydon, is just the sort of substantial company - not too urgently up for sale - that this scheme could for the first time bring within range of UK buyout financing.

The way that the scheme is being structured should make it accessible to institutions that need to hold their investments directly. The idea is that Electra Candover will give discretion to make investments and call down funds (pro rata to the original commitments of the participants) but that the subscribers will have full control of their investments once made. Given that there is a fair amount of interest from U.S. investors, who know the form and are attracted by the chance to trail an under-fished market, attracting funds should be no problem. First time round, anyhow.

BOWATER INCORPORATED

Half year profits up despite slowed demand

	6 Months to 22 June '85	6 Months to 30 June '84
SALES	US\$447.0m	US\$442.9m
INCOME BEFORE TAX	US\$52.3m	US\$47.1m
NET INCOME	US\$30.3m	US\$24.7m
EARNINGS PER SHARE	US\$1.00*	US\$0.95

* Assuming full conversion of convertible debentures.

† Re-stated for the sale of Bowater Home Center, Inc.

- ★ Earnings for six months were up 23% despite second quarter softness.
- ★ Pulp remains depressed.
- ★ Income from newsprint and coated paper continued to improve.
- ★ New coated paper capacity ahead of schedule.

Bowater Incorporated of Darien, Connecticut is the largest producer of newsprint in the USA, and a major manufacturer of coated publication paper, bleached kraft market pulp and continuous business forms.

BOWATER

World Weather

Area	Temp	Wind	Cloud	Temp	Wind	Cloud
Alaska	26	SE	82	Delaware	26	SE
Albania	28	SE	81	Dominican	27	SE
Algeria	28	SE	81	Dominican	27	SE
Andorra	28	SE	81	Dominican	27	SE
Angola	28	SE	81	Dominican	27	SE
Antigua	28	SE	81	Dominican	27	SE
Argentina	28	SE	81	Dominican	27	SE
Armenia	28	SE	81	Dominican	27	SE
Australia	28	SE	81	Dominican	27	SE
Austria	28	SE	81	Dominican	27	SE
Azerbaijan	28	SE	81	Dominican	27	SE
Bahamas	28	SE	81	Dominican	27	SE
Bahrain	28	SE	81	Dominican	27	SE
Bangladesh	28	SE	81	Dominican	27	SE
Barbados	28	SE	81	Dominican	27	SE
Belarus	28	SE	81	Dominican	27	SE
Belgium	28	SE	81	Dominican	27	SE
Belize	28	SE	81	Dominican	27	SE
Benin	28	SE	81	Dominican	27	SE
Bhutan	28	SE	81	Dominican	27	SE
Bolivia	28	SE	81	Dominican	27	SE
Bosnia	28	SE	81	Dominican	27	SE
Brazil	28	SE	81	Dominican	27	SE
Bulgaria	28	SE	81	Dominican	27	SE
Burkina	28	SE	81	Dominican	27	SE
Burundi	28	SE	81	Dominican	27	SE
Cambodia	28	SE	81	Dominican	27	SE
Cameroon	28	SE	81	Dominican	27	SE
Canada	28	SE	81	Dominican	27	SE
Cape Verde	28	SE	81	Dominican	27	SE
Casakhstan	28	SE	81	Dominican	27	SE
Catalonia	28	SE	81	Dominican	27	SE
Cayman	28	SE	81	Dominican	27	SE
Czech	28	SE	81	Dominican	27	SE
Dominican	28	SE	81	Dominican	27	SE
DRC	28	SE	81	Dominican	27	SE
Dubai	28	SE	81	Dominican	27	SE

Continued from Page 1

EMS realignment "allows the Italian economy a margin of space to reabsorb losses and competitiveness which we must have been threatened by mere domestic economic measures."

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They are also L860bn of spending cuts.

Friday's turmoil in the foreign exchange markets has caused immense embarrassment in and Prime Minister Craxi called for a full investigation, apparently botched lines of cooperation between the Bank of Italy and ENI, the state energy giant.

The currency crisis was suddenly precipitated by ENI asking \$125m on the Milan market to put immense pressure on the government, according to Signor ENI having any urgent need for dollars.

Insist on...

Really Dry Gin

SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday July 22 1985

Surveyors
Valuers
Estate AgentsFletcher King
01-493 8400

France spells out renegotiation terms for \$4bn credit

BY PETER MONTAGNON IN LONDON

FRANCE has finally taken the plunge and announced terms under which it is to renegotiate the \$4bn credit raised in 1983 at the height of pressure on the franc.

On Friday Société Générale, the original agent, was mandated for the renegotiation, which involves both a reduction in margins and fees, although the original maturity of 1992 has been retained. The move has been expected for some time, although it was held up while France arranged a similar refinancing of borrowing arranged through the EEC at the same time.

Under the new deal, France is to repay \$400m ahead of schedule, leaving a term loan of \$1.28bn and a standby credit of \$2.34bn still in place. Both those loans currently have a margin of 1/2 per cent over Eurocurrency rates, but in the case of the standby it is to be reduced to 1/4 per cent and of the term loan to 1/4 per cent for four years falling to 1/8 per cent thereafter.

The commitment fee on the standby credit is to be cut from 1/4 point to 1/8 for the next four years and to 1/16 basis points thereafter. There is to be a renegotiation fee of 10 basis points.

Bankers say that those terms are very fine, but in the light of current market conditions seem pitched about right. Smaller deals for Danish and Italian borrowers have come to the market on similar terms recently, indicating a willingness of banks to do business at such levels.

Moreover a fall-back exists for France if some banks already in the deal do drop out. That might happen, for example, if Middle East banks which have trouble funding very low margin credits decide not to accept the new terms. In that circumstance, France could always increase the Japanese share of the deal, which is currently 33 per cent.

This year, restrictions on the share Japanese banks may take of any single syndicated loan have

been lifted. Many bankers also believe that Japanese banks are now saturated with floating-rate notes and Eurocurrency facilities and looking for more credit business.

Also the growing resignation of the banking industry to low credit margins is demonstrated by another of last week's new credits, a \$200m, eight-year deal for the Soviet Union. It bears a margin of 1/4 per cent throughout - the finest terms yet accorded to a Comecon borrower.

Moreover, the deal is believed to be the first for several years to include a U.S. lead manager, in the form of First Chicago, which is to be agent. Other lead managers are Arab Bank, Banque Indosuez, Dresdner, Fuji, Industrial Bank of Japan (Germany), Kansai-Osaka-Pankki and Sanwa International.

Elsewhere, the flow of Eurocurrency facilities from UK borrowers continues with a \$150m, eight-year deal for United Biscuits led by Morgan Grenfell. The facility incorporates an option for the borrower to arrange interest-rate swaps through a tender panel as well as drawings in the form of dollar Euronotes, short-term multicurrency advances and sterling acceptances. It carries an annual fee of 1/4 per cent for the first four years rising to 1/8 basis points thereafter. Drawings on the associated revolving credit will bear interest at a margin of 1/4 per cent for four years rising to 1/8 per cent.

Land Rover-Leyland's sterling acceptance facility has been increased by £50m to £150m, while in the Far East Korea Exim Bank is arranging a \$150m, five-year note issuance facility through BT Asia.

It carries a 1/4 per cent fee and a 1/4 per cent maximum margin. Participants will obtain an extra yield through an unusual feature providing for the difference between the selling yield on the notes and the maximum margin to be split equally between the borrower and underwriters.

INTERNATIONAL BONDS

Texaco cashes in on the slide

BY MAGGIE URRY IN LONDON

LAST WEEK demonstrated, if anyone needed reminding, that money can be lost with amazing rapidity in the Eurobond market. Between Wednesday and Friday a group of eleven new issue houses, led by Credit Suisse First Boston had lost - on paper - \$8m. Sadly, making money usually takes a little longer.

Texaco, the U.S. oil major, is the lucky borrower which effectively gets the benefit of these losses, by tying up a \$300m bond issue on what now look like ludicrously cheap terms.

Back in April, Texaco joined in a rush of bond issues which followed a sharp downward revision of the U.S. first-quarter gross national product figure. That revision set the market racing and Texaco was able to get tight terms on a deal led by Union Bank of Switzerland (Securities).

Last week the second-quarter GNP figure was to be revised on Thursday and analysts expected another downward move. This time Texaco came to the market ahead of the figure's release and chose its more traditional bank CSFB to lead the deal. The terms were again aggressive, but if the market had roared ahead the issue would have succeeded. And CSFB could have

re-established the relationship without losing money.

But everything went wrong. The figures leaked out early and then Mr Paul Volcker, chairman of the U.S. Federal Reserve, upset the bond markets with a strong hint that U.S. interest rates will not be coming down. The New York bond market fell heavily, and Texaco's issue slumped. By Friday it was bid at a five point discount, to its 98 1/2 issue price, and the fees total 2 points.

"If you want to take a view on the Treasury market, buy Treasuries, not a mis-priced Eurobond issue," observed one banker last week. If the market goes up the Treasury bonds will perform better than the Eurobond. If the market falls the Eurobond will fall further.

Another was more sympathetic: "We're in a risk business. They made a judgment, they got it wrong."

The lesson was not to be learned quickly enough, however, for another deal last week, launched on Thursday morning for Trafalgar House. This too was caught in the market's slide and finished on Friday trading at a 4 points discount to its par issue price.

With the Eurodollar market in

EUROBOND TURNOVER

Turnover (\$m)

Primary Market	Securities	Govt	FIN	Other
U.S.	4,982.1	180.2	2,455.0	74.8
Prev	4,145.9	367.2	1,686.2	32.5
Other	646.2	0.1	580.9	11.9
Prev	604.2	0.2	3.1	63.3
Secondary Market	U.S.	Govt	FIN	Other
U.S.	20,534.6	1,449.4	11,409.5	1,485.1
Prev	17,867.4	1,034.4	11,079.5	1,218.1
Other	4,514.7	78.3	322.8	1,827.7
Prev	4,433.3	65.0	343.2	1,745.5
Credit	U.S.	Govt	FIN	Other
U.S.	12,806.6	29,591.8	42,371.5	45,315.4
Prev	13,925.6	31,409.8	45,315.4	45,315.4
Other	4,522.4	4,144.7	5,897.1	5,897.1
Prev	3,584.5	3,078.7	7,091.2	7,091.2

Week to July 19 1985 Source: AIBO

such a nervous mood, few syndicate managers were looking forward to launching more issues this week.

The floating rate note market was also hit by last week. One syndicate manager joked: "You could bring the Bank of England at a 1/4 per cent over Libor (London interbank offered rate) and I'm not sure it would go."

Once again the Australian and New Zealand currencies were alive with the new bond issues last week. The market is beginning to look overloaded with paper and the distribution channels through the European continental banks to retail

investors are getting clogged. Only the right name and the right coupon will sell now.

General Motors Acceptance Corp's issue, for instance, with a generous 12 1/2 per cent coupon, was trading close to its 100% issue price by the weekend. And the Ford issue, launched on Friday, made a respectable start.

Buyers for the Euroyen zero coupon issues - the latest novelty to come from the liberalisation of the market - seem even harder to find. Syndicate managers were afraid that their best hope was to hold the paper for six months until it can be sold back into Japan.

Both the D-Mark and the European currency unit bond markets have continued to improve as attention switches away from the dollar sector. The Swiss franc foreign bond market has been quieter, though on Friday SBC's pricing of the EIB issue at par rather than a discount shows that some bankers believe the market should rally.

Deutsche Bank has appointed two new managing directors of Deutsche Bank Capital Markets in the wake of Mr Karl Miesel's resignation. The two - Dr Rolf Levedag and Mr Stanley Ross - were both previously executive directors.

National Intergroup cuts loss in quarter

BY CHRIS CAMERON-JONES IN NEW YORK

NATIONAL Intergroup, the U.S. steel and financial services concern, turned in a reduced second-quarter loss compared with the first three months. The net deficit at the company, where diversification away from steel has attracted corporate predators, was \$12.3m or 80 cents a share, against \$17.9m, in the opening quarter and a profit of \$6.3m or 22 cents a year earlier.

The improvement on the preceding three months was due to record earnings by the financial services side and narrower losses on its 50 per cent share of National Steel, now half held by Nippon Kokan of Japan.

For the six months National Intergroup's loss reached \$30.19m or \$1.87 a share, compared with a \$10.07m or 11 cents profit last time.

Mr Howard Love, chairman and chief executive, said that the steel company showed an operating profit in June and the National Aluminum offshoot is expected to be profitable in the second half.

Pressures on margins curb Lockheed growth

BY OUR NEW YORK STAFF

LOCKHEED, the California-based defence contractor, reported net profits 11.5 per cent ahead in the second quarter and expects full-year sales and earnings to continue to show good gains over 1984's record results. However, pressure on margins restrained the rate of earnings growth.

Net earnings for the quarter were up at \$67m or \$1.32 per share, from \$76m or \$1.21 per share, taking the half-time total to \$171m or \$2.58, from \$146m or \$2.28 previously.

Sales in the latest quarter reached \$2.21bn, up from \$1.93bn, lifting the first half turnover to \$4.35bn, from \$3.52bn last time.

Mr Roy Anderson, chairman and chief executive, said margins were under pressure because of increased research and development spending and low margins on some foreign service contracts and U.S. government programmes.

The funded order backlog at June 30 stood at \$8.3bn compared with \$9.4bn six months earlier.

Southern Life makes record issue on Johannesburg SE

BY JIM JONES IN JOHANNESBURG

THE Southern Life Association, South Africa's fourth largest life insurer, will today offer 23 per cent of its shares to the public for R162m (\$85.6m) in the biggest initial public offering in the history of the Johannesburg Stock Exchange.

The offering represents one of the final stages in the polarisation of ownership of the country's private sector.

Southern is offering 38m shares to the public at R4.25 each. Of these shares, 26m will be preferentially allocated to policyholders, employees, agents and the pension fund of Barclays National Bank, one of Southern's major existing shareholders.

Southern was a mutual life office until April 1984 when it merged with Anglo American Life (AmLife), the life assurance arm of Anglo American Corporation (AAC) which, in turn, is South Africa's largest mining, industrial and financial conglomerate. Apart from some rationalisation benefits, the merger was widely seen as necessary to create an assurance group which was sufficiently large to compete effectively with Old Mutual and Sanlam, the first and second largest life offices. Following the present share issue, AAC will be Southern's largest shareholder, with 40 per cent of the equity. A further 30 per cent is expected to be held by Barclays National Bank, which paid R135m last year for its present interest.

Five major groups, AAC, Old Mutual, Sanlam, Liberty Life and Rembrandt, dominate the South African economy and control about four fifths of the country's non-agricultural private sector. They compete intensely to acquire assets and, with the exception of Rembrandt, place particular emphasis on generating strong life premium income cash flows, which can be deployed to acquire further assets.

Southern's premium income rose by 6.8 per cent to R563m in the financial year ended March 31, 1985 from R528m in the previous year. Investment income rose by 37.7 per cent to R362m from R263m and total net assets increased to R421bn from R347bn.

Southern's directors say that attributable earnings are expected to rise by 20 per cent to 29.5 cents a share during the current year and that the company's policy is to pay dividends equivalent to two thirds of income.

Southern says that this implies a total dividend of 19.5 cents a share in the current year and point out that at the 425 cents issue price Southern's shares yield a prospective 4.6 per cent.

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UPI move on union contract

UNITED Press International, the struggling U.S. newsagency, has filed an application in bankruptcy court to terminate its union contract, saying it must get wage and benefit cuts to help it find a buyer.

UPI, which has been operating under Chapter 11 of the U.S. Bankruptcy Code since April, took the issue to court after failing to win the concessions in negotiations with the Wire Service Guild.

The news agency said it expected revenues of between \$93m and \$95m this year, and without union concessions it would make a profit of between \$500,000 and \$1.8m. The concessions would add a further \$1.5m to profits.

After the union talks broke down on Wednesday, Mr William Morrissey, president of the guild, said he believed it was premature for the news agency to abrogate the contract before it found an acceptable buyer.

Reuters

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New Issue / July, 1985

U.S. \$250,000,000



Atlantic Richfield Company

10 1/4% Notes Due July 2, 2000

Salomon Brothers International Limited

Credit Suisse First Boston Limited

S. G. Warburg & Co. Ltd.

Deutsche Bank Aktiengesellschaft

Dresdner Bank Aktiengesellschaft

Goldman Sachs International Corp.

Merrill Lynch Capital Markets

Morgan Grenfell & Co. Limited

Morgan Stanley International

Shearson Lehman Brothers International

Swiss Bank Corporation International Limited

This announcement appears as a matter of record only.

Canadian \$75,000,000
Shell Canada Limited

(Incorporated under the laws of Canada)

11 1/4% Debentures due July 15, 1992

Issue Price 100.25%

Wood Gundy Inc.

Morgan Stanley International

Algemene Bank Nederland N.V.

Amro International Limited

Credit Suisse First Boston Limited

Deutsche Bank Aktiengesellschaft

Dominion Securities Pitfield Limited

McLeod Young Weir International Limited

Orion Royal Bank Limited

Salomon Brothers International Limited

Swiss Bank Corporation International Limited

Union Bank of Switzerland (Securities) Limited

BankAmerica Capital Markets Group	The Bank of Bermuda	Bank Gutzwiller, Kurz, Bungenier (Overseas)	Bank Hoeser & Cie. AG
Bank Leu International Ltd.	Bank of Montreal	Bank Morgan Labouchere (Curacao) N.V.	Bank of Tokyo International Limited
Bankhaus Hermann Lampe	Danque Bruxelles Lambert S.A.	Banque Generale du Luxembourg S.A.	
Banque Internationale à Luxembourg	Banque Paribas Capital Markets	Banque Worms	Baring Brothers & Co. Limited
Bayrische Hypothek- und Wechselbank	Bayrische Landesbank Girozentrale	Bayerische Vereinsbank	Aktiengesellschaft
Chemical Bank International Group	CIBC	Citicorp Capital Markets Group	Commerzbank Aktiengesellschaft
Credit du Nord	Dai-ichi Kangyo International	Darva Europe	Deutsche Girozentrale
Enskilda Securities	European Banking Company	First Interstate Limited	Fuji International Finance
Genossenschaftliche Zentralbank AG	Girozentrale und Bank der österreichischen Sparkassen	Goldman Sachs International Corp.	
Great Pacific Capital S.A.	Hambros Bank Limited	Hessische Landesbank	Hill Samuel & Co. Limited
Kleinwort, Benson	F. van Lanschot, Bankiers N.V.	Lloyds Bank International	LTCB International
Midland Doherty	Mitsubishi Finance International	Mitsui Finance International	Samuel Montagu & Co. Limited
Morgan Guaranty Ltd	Nederlandse Credietbank NV	Nederlandse Middenstandsbank N.V.	The Nikko Securities Co. (Europe) Ltd.
Nomura International	Norddeutsche Landesbank	Sal. Oppenheim jr. & Cie.	Oesterreichische Länderbank
Pherson, Helder & Pherson N.V.	PK Christiane Bank (UK) Ltd.	Rabobank Nederland	Richardson Greenfields of Canada (U.K.) Limited
Schoeller & Co.	J. Henry Schroder Wagg & Co.	Schweizerischer Hypotheken- und Handelsbank	Societe Generale
Standard Chartered Merchant Bank	Sumitomo Trust International	The Taiyō Kobe Bank (Luxembourg) S.A.	
Tokai International	Toronto Dominion International	Verelst. und Westbank	S. G. Warburg & Co. Ltd.
Westdeutsche Landesbank	Westfalia Bank	Yamaichi International (Europe)	Yasuda Trust Europe Limited

July 1985

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Euronote bankers clash over distribution

FLUSHED WITH their success in arranging underwriting facilities for their borrower customers, banks in the Euronote market are now increasingly turning their attention to the trickier question of actually placing the Euronote paper with end-investors.

This shift of emphasis has come with the growing realisation that the placement of paper has grown exponentially in line with the rapid rise in the number of facilities arranged.

Market estimates suggest that about \$100bn in Euronotes are now actually outstanding. The low rates struck in recent auctions by companies such as Unilever, which achieved an average of 13½ basis points below the key Libor rate on a sale of \$100m in three-month paper, have fuelled expectations that more and more companies will want to put their toes in the water.

But this has all happened at a time when the secondary market is still in the very early stages of groping its way to-

wards a unified system for the sale and distribution of paper to end-investors. Paradoxically, the tender panel system, whereby a designated group of banks combine to bid for the paper at auction, has turned out to have a number of practical drawbacks.

Because it is an auction system it ought to epitomise the perfect market, matching exactly the best aspirations of both lender and borrower. In practice, a fierce controversy rages about its role. Mr Philip Colebatch, an Executive Director of Credit Suisse First Boston, irritated many of his competitors when he hit out against the tender panel system at a recent Euronote seminar.

Mr Colebatch belongs to the camp of investment bankers which argues, partly out of self-interest, that the business of placing paper ought to be left to those with an established expertise in securities dealing. The presence of in-expert commercial banks on some tender panels muddles the water and

distorts pricing, while the system itself impedes a free flow of paper to the market because auctions only take place periodically, after long notice periods. It may also leave some participants unable to fulfil their customers' needs because of "rogue" bidding by competitors.

Worse still, the notice period required to set up an auction may cause some borrowers to miss a window of opportunity in the market-place. As a result, they risk ending up paying more for their money. What this camp would prefer is a limited system of designated dealerships able to supply paper to the market on demand.

But this is where the commercial banking camp gets really hot under the collar. Dealer-ships are a monopoly system that cuts off price competition, they argue. Moreover they leave a borrower particularly vulnerable to the traditional Euronote roundabout where whole teams of dealers can switch overnight from one house

to another in search of better pay, says one senior banker.

The fact that tender panels can work well is shown by the case of Sweden which has now issued \$2.5bn of short-term dollar notes under its \$4bn facility arranged last year. At the first auction the range of bids received was very wide with the lowest accepted one 85 basis points below Libor and the highest 15.56 points below. Now this range has narrowed with the latest auction showing a range of only 2.09 basis points around an average 4.877 below Libor.

Moreover, bankers point out that the market no longer offers a simple choice between tender panels and dealerships. Both mechanisms were combined in the recent facility for AB Flakt, the Swedish air technology concern, while another Swedish deal, the recent \$1.8bn refinancing for the Kingdom arranged by Chase Manhattan, incorporated two classes of tender panel. One of these was a so-called "specialist" panel

whose members are compelled to bid if Sweden seeks drawings and which may deal in unusual maturities.

Refinements such as these are likely to continue as the market experiments with distribution. In the event it may turn out that no one system dominates. Some bankers believe that the tender panel system is best suited to high-volume, top-quality issuers such as Sweden, while dealerships are more appropriate for lesser credits whose paper sales need to be more carefully controlled. For all its imperfections the tender panel system still has two main things going for it. Banks like it because it adds to their incentive to join a deal. Borrowers like it, too. After all, a bad auction result can be blamed on the market. Poor performance from a designated dealer is harder to explain. It may mean the wrong dealer was chosen in the first place and that has to be the borrower's fault.

Peter Montagnon

Multimedia to buy back stake from bid predator

BY PAUL TAYLOR IN NEW YORK

MULTIMEDIA, the U.S. TV station, cable television, and newspaper group, has agreed to buy back the 1.63m shares, or 9.75 per cent stake acquired by Mr Jack Kent Cooke, a U.S. entrepreneur, as part of his bid to win control of the group.

The company said it will pay \$70 a share, or a total of \$113.86m for Mr Cooke's stake—representing a \$6.75-a-share premium over Multimedia's Thursday closing share price. The share price sank after the "greenmail" agreement was announced, dropping \$4½ on Friday to close at \$58½.

Under the terms of the deal Mr Cooke, who will also be reimbursed for "certain expenses," agreed to end his takeover attempts.

The deal will form part of a previously proposed \$500m recapitalisation plan under which Multimedia would be taken into private ownership by an investment group including senior managers and the company's founding families, who together own about 40 per cent of the group's outstanding shares.

If approved by shareholders, the deal could signal an end to a long-running battle for

control of Multimedia. Mr Cooke, who owns the Washington Redskins American football team, had steadily raised his hostile bid for a controlling stake in the group to \$70.01 a share—valuing the company at about \$1.2bn.

Mr Cooke raised his bid for 6.73m shares, or an additional 40.3 per cent of Multimedia, last week after the South Carolina-based group had twice rejected previous offers. Last weekend the U.S. Federal Communications Commission agreed Mr Cooke could use a trustee to hold the group's broadcasting licences—a key decision which enabled Mr Cooke to proceed with his takeover attempt.

The recapitalisation plan will be put to shareholders shortly and Mr Cooke has agreed to vote his stake with the majority. The plan must also receive the approval of South Carolina's courts.

Mr Wilson Wearn, Multimedia's chairman, said he was "pleased" with the agreement which he said was in the best interest of shareholders.

In the year to December 1984 Multimedia earned \$33.7m on sales of \$304.4m.

Cominco falls to C\$6.6m first-half loss

By Bernard Simon in Toronto

COMINCO, the diversified Canadian zinc and fertilizer producer, suffered a C\$6.6m (US\$4.9m) loss before extraordinary items, equal to 21 cents per share, in the six months to June 30, compared to a profit of C\$30.1m or 21 cents a share, a year earlier. After including extraordinary gains, earnings dropped from C\$25.3m to C\$2.6m.

Second-quarter income before extraordinary items fell from C\$15.6m to C\$3.4m despite a 9.9 per cent increase in sales. The company said higher sales of zinc and lead concentrates were offset by lower metal prices. Cominco recently announced a six-month cut in zinc output at its mine near Trail, British Columbia, as part of several producers' efforts to bring supply into line with demand.

Chemical and fertilizer profits increased during the second quarter, thanks to higher sales volumes. Ammonium phosphate and potash prices declined.

Total sales rose from C\$434m to C\$477.5m in the second quarter, and from C\$802.7m to C\$813m in the first half.

CGE hopes for Eureka deals with Philips, Immos

BY DAVID MARSH IN PARIS

COMPAGNIE Generale d'Electricite, the French state-owned engineering and electronics conglomerate, is hoping to agree co-operation with Philips of the Netherlands in industrial control systems and with Immos of Britain in artificial intelligence as part of the Eureka technology programme.

CGE said that it was already associated with 10 other European companies in areas which could be supported under Eureka, the high-tech co-operation scheme agreed by 17 European governments last week.

It named seven areas where collaboration is under way. These included artificial intelligence, where CGE companies

and research laboratories have already teamed up with Techint of Italy, Danet of West Germany and Societe Generale de Belgique. Discussions are taking place to include Immos in the partnership, it said.

Other co-operation areas are industrial control systems, robots, flexible automated systems, lasers and telecommunications, CGE said.

The CGE statement follows a series of announcements of planned or prospective research agreements linking the other main French electronics groups, Thomson and Matra, with European companies including Siemens, GEC, Philips, SGS, Messerschmitt and Norsk Data.

Shipping sale by Storebrand

BY FLEMING DAHL IN OSLO

STOREBRAND-NORDEN, the Norwegian insurance group, has agreed to sell its shipping investments to a Norwegian group of investors in a deal worth Nkr 110m (\$13m). A final deal will depend on the buyers' ability to finance the take-over by September 20. The group said it was selling

because it wanted to concentrate on activities which "naturally relate to each other." The shipping investments, gained in a company called Poseidon, are spread on 86 different projects, mainly oil rigs, bulk ships, and tankers. Poseidon reported a 1984 pre-tax profit of Nkr 17m.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Fuji Heavy Ind. \$1	50	2000	15	3	100	Yamichi Int.	3.008
Pirelli Fin. Services \$	50	1985	10	(7-7½)	100	CSFB	-
Dow Chemical \$	50	1990	5	(7)	100	Wain Secs. (Europe)	9.715
C. Ind. \$	75	1991	5	10½	101.8	Barings Paribas	10.205
Yusasa \$	300	1985	10	10	98½	CSFB	-
First Bank Systems (a) \$	100	1987	12	¼	100	CSFB	-
Yusasa House \$	100	1982	7	10½	100	Barclays Merchant Bk	10.750
Osaka Gas \$	50	1992	6½	10½	100	Monnet Int.	10.125
CANADIAN DOLLARS							
Bell Canada \$	100	1990	5	10½	100½	UBS (Swiss)	10.118
Hydro Quebec \$	100	1985	10	11	100½	Merrill Lynch	10.915
World Bank \$	100	2003	24	11	100	Dominion Secs. Pitfield	11.000
AUSTRALIAN DOLLARS							
QANTAS \$	35	1988	3	12½	100%	Henderson Bank	12.512
State Bank of NSW \$	75	1989	5	12½	100%	Morgan Stanley	12.530
Westpac Banking \$	50	1988	5	12½	100%	Bankers Trust Int.	12.574
Dunlop Credit \$	50	1988	3	12½	100%	Bankers Trust Int.	12.512
Ford Credit Aus. \$	50	1990	5	12½	100%	CSFB	12.734
NEW ZEALAND DOLLARS							
Finance Corp. of NZ \$	40	1988	4	16%	100%	Bge Gutzwiller, K.B.	16.535
Bank of New Zealand \$	50	1989	3½	16½	99½	Morgan Stanley	16.125
Bank of New Zealand \$	50	1991	5½	16½	100	Morgan Stanley	16.250
McDonald's \$	12	1990	5	16	100	Bge Gutzwiller, K.B.	16.000
HONG KONG DOLLARS							
C.I.T.I.C. (Hk) \$	300	1989	5	9½	99.50	Chase Man. Asia	9.491
D-MARKS							
Frank. Fin. Services \$	120	1992	7	(4)	100	BHF Bank	-
Credit Suisse Fin. \$	100	1989	5	4	100	CSFB-Effektenbank	4.000
Mittel Finance \$	150	1997	12	7½	99½	Draxton Bank	7.282
SWISS FRANCES							
Werner Printing \$	15	1988	-	5½	100	Credit Suisse	5.750
Southmark Corp. \$	120	1993	-	6½	100	Bge Paribas (Swiss)	6.250
Kingsway Rubber Ind. \$	25	1990	-	3	100	Credit Suisse	3.000
Daimler-Benz \$	20	1990	-	1½	100	UBS	1.625
Wipac Ind. \$	30	1989	-	5½	100½	Bank Leu	5.721
Toshiba Tungsten \$	60	1989	-	(1½)	-	Credit Suisse	-
EB \$	100	1995	-	5½	100	SBC	5.525
Balgans \$	50	1991	-	5½	100	Credit Suisse	5.500
N. Nomura \$	20	1988	-	(3½)	-	Bank Julius Baer	-
ECUs							
IBM World Trade \$	150	1990	5	8½	100	BNP	8.250
STERLING							
World Bank \$	100	2010	25	9½	88.466	Barings Brothers	10.855
First UK \$	40	2008	15	(7½-7¾)	100	Barings Brothers	-
SCANDINAVIAN							
BFCE \$	200	1997	9	7½	100	Aurilo	7.500
LUXEMBOURG FRANCES							
Carifina \$	600	1995	10	9	100	Kredietbank Int.	9.008
YEN							
Swedish Export Cr. \$	13.5m	1998	5	0	73.281	Nikko Secs. (Europe)	5.420
SNAC \$	30m	1990	5	0	74.927	Monnet Int.	5.943

* Not yet priced. † Final terms. ** Private placement. ‡ Convertible. § Floating rate note. ¶ With equity warrants. Ⓟ Partly paid. (a) On over 300 libor. (b) undated. Note: Yields are calculated on ARD basis.

EUROPEAN TRADED OPTIONS

Tuesday-Wednesday-Thursday-Friday

Only in the Financial Times

SANDOZ

SANDOZ Holding Netherlands B.V.

(Incorporated with limited liability in the Netherlands)

U.S.\$99,541,000

4¼ per cent. Guaranteed Convertible Debentures due 1997

Convertible into 169,000 Bearer Participation Certificates of Sfr. 50 par value each of, and unconditionally guaranteed by,

SANDOZ Ltd

(Incorporated with limited liability in Switzerland)

Swiss Bank Corporation International Limited

Credit Suisse First Boston Limited

Union Bank of Switzerland (Securities) Limited

Deutsche Bank Aktiengesellschaft	Morgan Guaranty Ltd	Morgan Stanley International
Algemene Bank Nederland N.V.	Amro International Limited	Arab Banking Corporation (ABC)
Julius Baer International Limited	Banca del Gottardo	Banca della Svizzera Italiana
Bank J. Vontobel & Co. AG	Bank Leu International Ltd.	BankAmerica Capital Markets Group
Banque Bruxelles Lambert S.A.	Banque Generale du Luxembourg S.A.	Banque Internationale à Luxembourg S.A.
Banque Nationale de Paris	Banque Paribas Capital Markets	Barclays Merchant Bank Limited
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft		Bayerische Landesbank Girozentrale
Bayerische Vereinsbank Aktiengesellschaft		Berliner Handels- und Frankfurter Bank
Chase Manhattan Capital Markets Group	Citibank Investment Bank Limited	Commerzbank Aktiengesellschaft
Compagnie de Banque et d'Investissements, CBI	County Bank Limited	Crédit Commercial de France
Crédit Lyonnais	Daiwa Europe Limited	Dresdner Bank Aktiengesellschaft
Generale Bank	Goldman Sachs International Corp.	Groupements des Banquiers Privés Genevois S.A.
Hambros Bank Limited	Handelsbank N.W. (Overseas) Ltd.	Hentrich & Cie
Kidder Peabody International Limited	Kleinwort, Benson Limited	Kredietbank International Group
Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)	Lloyds Bank International Limited	Kuwait International Investment Co. S.A.K.
Kuwait Investment Company (S.A.K.)	Merrill Lynch Capital Markets	Lombard Odier International Underwriters S.A.
Manufacturers Hanover Limited	Nederlandsche Middenstandsbank nv	Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited	Orion Royal Bank Limited	The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited	Sarasin International Securities Limited	Pictet International Ltd.
Salomon Brothers International Limited	Société Générale	J. Henry Schroder Wagg & Co. Limited
Skandinaviska Enskilda Banken	Verband Schweizerischer Kantonalbanken	Swiss Volksbank
Tradition International S.A.	Wood Gundy Inc.	S.G. Warburg & Co. Ltd.
Westdeutsche Landesbank Girozentrale		Yamaichi International (Europe) Limited

New Issue

This announcement appears as a matter of record only.

July, 1985

New Issue

This announcement appears as a matter of record only.



The City of Winnipeg
(Canada)

Canadian \$50,000,000

10½% Debentures due July 16, 1990 Series UZ

Issue Price 100%

Wood Gundy Inc.

Algemene Bank Nederland N.V.	Banque Bruxelles Lambert S.A.
Bayerische Landesbank Girozentrale	CIBC Limited
Commerzbank Aktiengesellschaft	Credit Suisse First Boston Limited
Samuel Montagu & Co. Limited	Morgan Guaranty Ltd
The Nikko Securities Co., (Europe) Ltd.	Orion Royal Bank Limited
Richardson Greenshields of Canada (U.K.) Limited	Salomon Brothers International Limited
Swiss Bank Corporation International Limited	
Amro International	BankAmerica Capital Markets Group
Bank Gutzwiller, Kurz, Buegner (Overseas) Limited	Bank Leu International Ltd.
Bank J. Vontobel & Co. AG	Bankhaus Hermann Lampe
Banque Internationale à Luxembourg S.A.	Banque Nationale de Paris
Banque Paribas Belgique S.A.	Banque Worms
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft	Berliner Bank Aktiengesellschaft
Chase Manhattan Capital Markets Group	Chemical Bank International Group
County Bank Limited	Crédit Commercial de France
Daiwa Bank (Capital Management) Ltd.	Daiwa Europe Limited
Dominion Securities Pitfield	Dresdner Bank Aktiengesellschaft
Genossenschaftliche Zentralbank AG	Goldman Sachs International Corp.
Hessische Landesbank	Hill Samuel & Co. Limited
Kredietbank International Group	Lloyds Bank International Limited
Merrill Lynch Capital Markets	Midland Doherty Limited
Morgan Grenfell & Co.	Morgan Stanley International Limited
Norddeutsche Landesbank	Sal. Oppenheim Jr. & Cie.
PK Christiania Bank (UK) Ltd.	Rabobank Nederland
J. Henry Schroder Wagg & Co. Limited	Standard Chartered Merchant Bank
Sumitomo Trust International Limited	Swiss Volksbank
Vereins- und Westbank Aktiengesellschaft	S.G. Warburg & Co. Ltd.
Westdeutsche Landesbank Girozentrale	Westfaltenbank Aktiengesellschaft
	Yamaichi International (Europe) Limited
	Yasuda Trust Europe Limited

July 1985

UK COMPANY NEWS

CAP offers 7.5m shares on London stock market

BY STEFAN WAGSTYL

CAP Group, one of the UK's leading independent software houses, is coming to the stock market through the offer for sale of 7.5m shares, or 34.3 per cent of its equity.

Some 5m are new shares being sold to raise £2.1m in fresh funds for the company, and the rest are being sold by shareholders.

Merchant bank Morgan Grenfell is offering the shares at 150p each, or 16.4 times fully diluted earnings for the year to the end of April 1985. The yield, on a forecast dividend for the year to next April of 1.5p, is 1.78 per cent.

CAP, founded in 1962, ran into trouble in the late 1970s with an ill-fated diversification into micro-computer software which plunged the company into a pre-tax loss of £1.42m in 1980-81. But after a management shake-up, the group has recovered rapidly and in the year to April made pre-tax profits of £2.12m on turnover of £36m.

About 70 per cent of the company's turnover comes from systems development, with the rest divided between selling software products, consultancy and software maintenance.

Customers in industry account for 48 per cent of sales, with another 29 per cent coming from science and defence markets, and the remainder from companies in financial services.

CAP says that the current year has started well. It plans to continue expanding sales both in the UK and overseas.

The issue, underwritten by Morgan Grenfell, is advertised today. The application lists close on Thursday, and dealings are expected to start the following Wednesday, July 31.

comment

It is hard to see why CAP Group is compelled to press ahead with its flotation at this time. Not only is the stock market busy making down high technology shares across the board, but it has also taken a particular dislike to software houses, in the wake of troubles at Micro Focus and, more impor-

tantly, Logica. Admittedly, Systems Designers retains its premium rating, trading on a multiple in the high teens, but it is a smaller company than CAP, and so a thin thread from which to hang a new issue. All this is unfortunate, because CAP has the hallmarks of a quality company — with a broad spread of customers and a high reputation in the industry.

Since learning a lesson in 1980/81 about the dangers of diversification, the group has concentrated intently on the markets it knows best. In particular it has been reluctant to develop too much business abroad, though this may change in the future. While there is an element of recovery in the five year track record, there is every reason to believe that CAP will continue to take its share of the growth of demand for computer software. In better times, it would be an attractive addition to any portfolio. At the moment there seems little cause for rushing to buy in the offer for sale.

Bristol Evening Post up at £2.9m

ALTHOUGH SECOND-HALF profits fell from £1.7m to £1.55m, Bristol Evening Post ended the year to March 31 1985 with pre-tax figures ahead at £2.95m, against £2.48m previously. Turnover for the 52 weeks increased from £37.63m to £40.71m.

With earnings per 25p share up from a stated 20.72p to 28.37p, the dividend total is 5p higher at 21.5p net after a final payment of 11.5p.

Operating profits rose by 20.45m to £2.95m, of which the largest contribution came from newspaper publishing and printing at £1.38m (£1.06m). Retail activities added £775,000 (£701,000), features and crossword agencies £47,000 (£52,000); and transport and vehicle repair £82,000 (£68,000). Property rental income came to £572,000 (£618,000).

Interest payable, less investment income, took £21,000 (£25,000). After tax of £1.37m (£1.27m) and minorities of £668,000 (£338,000), the attributable surplus emerged ahead from £246,000 to £1,086m.

There was also an extraordinary credit this time of £712,000 (£156,000 charge) which related mainly to the profit on sale of Reuters "B" shares, less provision for tax thereon.

Rexmore

WITH SECOND HALF profits dropping from £382,000 to £243,000, Rexmore, fabric supplier and distributor, has announced a lower pre-tax result for the year to end-March 1985, of £513,000, against £647,000 previously.

Turnover for the year increased by nearly 12 per cent to £29.86m (£26.78m), generating an operating profit of £389,000, against £307,000.

The pre-tax result was struck after a lower pre-tax profit of £299,000 (£278,000) from the related companies, and higher interest charges of £623,000 (£439,000).

Stated net earnings per 25p share emerged down from 4.69p to 0.39p, and on a nil basis at 1.99p, and in view of this the directors feel it is prudent to scale down the annual dividend to 1p (1.68p), with a 0.53p final.

In the first quarter of the current year they say that the group's trading divisions have shown further progress. There was an extraordinary debit of £467,000 (credit £47,000) being primarily the loss on disposal of House of Friedland of £332,000, and the share of the extraordinary items of related companies of £119,000.

Parkfield rises in second half

SECOND-HALF profits of Parkfield Group, have shown an appreciable increase, as expected. They amount to £378,000 and mainly stem from the rationalisation programme and a generally improved level of sales.

They give a profit of £488,000 for the year ended April 27, 1985, compared with losses of £263,000 in 1983-84 and £208,000 in the preceding year. However, there is an exceptional charge of £114,000 this time being non-recurring costs and writeoffs relating to inferior quality coke delivered from abroad during the miners' strike, bringing the profits down to £374,000.

After a return to dividend with the 0.5p interim, the directors have decided on a final of 1.6p net. Mr Roger Felber, chairman, says the cover is not as great as he would expect in future, but since the acquisition of Foster Electrical Supplies (in May) produced an increase in distributable reserves of more than 10p per share, the directors feel this dividend is appropriate.

In the current year the foundry operation has started very well, says the chairman, and with some contribution from Foster, he is confident of further growth in profits for the first half. Mr Felber says the acquisition of Foster (from Thorn EMI) was met by the issue of 455,730 shares and the arrangement to repay £1.63m of inter-company borrowings. At the year end group liquidity was some £320,000 so some short-term borrowings had to be created to make the repayment.

The chairman says he is confident that during the current year "we will generate sufficient cash flow from our operations so as to again have a positive cash position with no net borrowings at the end of this financial year."

In the year ended March 31 1985 Foster made an operating profit of only £50,000 (before exceptional items) from a turnover of £10.5m, compared with a profit of over £700,000 on a slightly smaller turnover just four years ago. "We believe that Foster will make a rapid recovery in profits which we will start to see this year and the 9 per cent equity dilution arising from this acquisition will result in a valuable increase in earnings per share."

After tax, £104,000 (£12,000 credit) the Parkfield group net profit comes out at £269,000 (loss £33,000) for earnings of 5.06p (deficit 1.12p). There are also extraordinary charges of £38,000 (£8,000 net of tax for redundancies). The dividend cost is £135,000.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcement (indicated by asterisks) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Date	Announcement last year	Date	Announcement last year
APV Aug 23	Interim 4.5	Nottingham Mfg. July 23	Interim 1.45
BA Aug 23	Interim 0.84	Ocean Transport. Aug 1	Interim 2.15
Barclays Aug 23	Interim 0.84	Prop. Soc. Aug 8	Final 1.5
Beggs Inds. Aug 20	Interim 3.5	Queens Invest. Aug 23	Interim 0.985
Blue Circle Inds. Aug 15	Interim 6.0	Royal Dutch Pet. Aug 8	Interim due
BSR Aug 15	Interim 0.385	Royal Insurance. Aug 16	Interim 8.75
Cadbury Schweppes. Aug 23	Interim 1.6	Securitor. Aug 16	Interim 0.49
Commercial Union. Aug 14	Interim due	Shell Transport. Aug 9	Interim 11.3
Corak Aug 20	Interim 1.5	Smith and Nephew. Aug 14	Interim 1.4
De Beers Aug 8	Final 3	Smith (W.H.) Aug 22	Final 1.171
De Corp. Aug 8	Final 2.8	Standard Chartered. Aug 21	Interim 3.5
Dowry July 24	Interim 4.25	Stock Conversion. Aug 12	Final 3.5
Enco Int'l Aug 23	Interim 4.25	STI Aug 8	Interim 5
General Accident. Aug 15	Interim 8	Wagon Finance. Aug 24	Interim 0.875
Glynwed Int'l. Aug 6	Interim 3.25		
GNV Aug 7	Interim 4		
Horizon Travel. Aug 22	Interim 0.88		
ICI July 25	Interim 12		
Lex Service. July 25	Interim 4.1		
Lloyds Bank. Aug 2	Interim 9.5		
Mercantile House. July 31	Final 8.25		
Midland Bk. Aug 1	Interim 11		
North. July 30	Interim 12.0		

EQUITIES

Issue Price	Latest Return	1985 High	1985 Low	Stock	Change	+ or -
150	F.P. 9.8	90	88	AYTA Selection Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Abbey Life Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Appletree 10p	88.5	+1.5
150	F.P. 9.8	90	88	Balfour Beatty Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Blanchard 10p	88.5	+1.5
150	F.P. 9.8	90	88	Bradstock Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Brent Walker 10p	88.5	+1.5
150	F.P. 9.8	90	88	British Aerospace Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Canon Street Inv.	88.5	+1.5
150	F.P. 9.8	90	88	Chive Discount Writ.	88.5	+1.5
150	F.P. 9.8	90	88	Cable & Wireless 10p	88.5	+1.5
150	F.P. 9.8	90	88	Granbrook Elect. Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Stain. Co. Leasehold.	88.5	+1.5
150	F.P. 9.8	90	88	First Security 10p	88.5	+1.5
150	F.P. 9.8	90	88	Goodhead Print Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Green Property Ir. Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Heathcote Brewery.	88.5	+1.5
150	F.P. 9.8	90	88	De Al. Lim. Vtg. Ord.	88.5	+1.5
150	F.P. 9.8	90	88	Isotron.	88.5	+1.5
150	F.P. 9.8	90	88	London Tel. Writ.	88.5	+1.5
150	F.P. 9.8	90	88	Metro Scope 10p	88.5	+1.5
150	F.P. 9.8	90	88	Norfolk Inv. Trust 10p	88.5	+1.5
150	F.P. 9.8	90	88	Optima Systems Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Pratt & Whitney Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Polypipe 10p	88.5	+1.5
150	F.P. 9.8	90	88	Pratt & Whitney Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Salvage (Chubb) Sp.	88.5	+1.5
150	F.P. 9.8	90	88	St. John's Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Sturge Hdg. Sp.	88.5	+1.5
150	F.P. 9.8	90	88	Thyssen 10p	88.5	+1.5
150	F.P. 9.8	90	88	World Sp.	88.5	+1.5

FIXED INTEREST STOCKS

Issue Price	Latest Return	1985 High	1985 Low	Stock	Change	+ or -
150	F.P. 9.8	90	88	Boddingtons 5 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	C. H. Inland. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	Canon St. Inv. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	Canon St. Inv. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	Canon St. Inv. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	Canon St. Inv. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	Canon St. Inv. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	Canon St. Inv. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	Canon St. Inv. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5
150	F.P. 9.8	90	88	Canon St. Inv. 7 1/2% Ov. Un. Ld. 200000.	88.5	+1.5

RIGHTS OFFERS

Issue Price	Latest Return	1985 High	1985 Low	Stock	Change	+ or -
150	F.P. 9.8	90	88	5pm Baker Perkins a 50p	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5
150	F.P. 9.8	90	88	3pm Isolates.	88.5	+1.5

Renunciation date usually last day for dealing free of stamp duty. * Figures based on prospectus estimates. * Assumed dividend and yield. * Forecast dividend cover based on previous year's earnings. * Pence unless otherwise indicated. * Issued by way of capitalisation. * Reintroduced. * Issued in connection with reorganisation merger takeover. * Allotment letters or fully paid. * Unlisted Securities Market. * Floating price. * Dealt in under Rule 335 (3). * Dealt in under Rule 335 (4) (a).

Moss Advertising for USM

BY LUCY KELLAWAY

THE MOST recent in the stream of marketing companies coming to the USM is Moss Advertising, which is being brought by Henderson Crosthwaite. A placing of 825,000 shares at 105p will raise a total of £86,625 of which £36,000 will be new money for the company.

Moss, which is capitalised at \$4m, is a regional advertising agency with offices in Sheffield, Leeds and Leicester. The company is also involved in PR,

graphic design and marketing consultancy, although advertising accounts for about 90 per cent of group profits.

The company was started by Stephen Moss in 1978 and now employs 61 people. It currently has over 100 clients, three of which account for a third of group trading profits.

In the last five years, turnover has grown from about £1.5m to \$4m, while profits have increased from £80,000 to £227,000. There

was a two-year dip in 1981 and 1982, which the company says was due to costs associated with expansion.

In the half-year to February, Moss made pre-tax profits of £231,000 on sales of £2.6m and is forecasting a full year outcome of less than £410,000.

On this basis, the shares are on a p/e ratio of 14.5 after an estimated 44 per cent tax charge. The yield is 3.3 per cent assuming dividends per share of 2.65p. Dealings begin on Thursday.

SHARE STAKES

Changes in company share stakes announced over the past week include:

Chloride—On July 18 Sir M. Edwards, a director, purchased 50,000 ordinary shares at 37p and 50,000 ordinary shares at 43p.

J. Rothschild Holdings—Mr N. Taube, a director, has acquired 100,000 ordinary shares at 98p and Mr H. Stanton, also a director, has acquired 20,000 ordinary shares at 88p on July 18.

Mr K. J. Minton, director, exercised his options under the directors' interest in securities of the company in respect of 45,116 ordinary shares at 70p.

W. M. Morris Fine Arts—Mr D. Vallance reduced his shareholding by 237,495 shares to 200,000. He is managing director of subsidiary Morris Singer Foundry.

Imperial Group—J. M. Pickard, a director, through Michael Pickard Ltd, acquired 25,000 ordinary shares and now holds

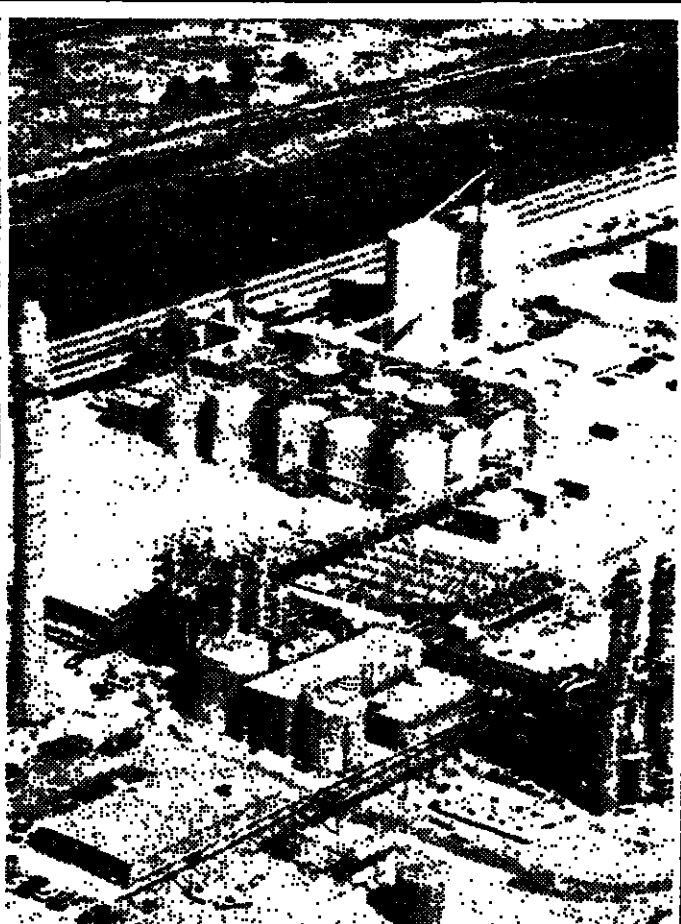
126,100 ordinary shares. Robert Horne Group—Mrs E. J. Davenport, wife of director M. C. Davenport, sold 65,000 ordinary shares at 140p.

Marks and Spencer—S. J. Sacher, director, disposed of 50,000 ordinary shares. Hawley Group—Chase Nominees is the registered holder of 12,585,382 ordinary shares (6.5 per cent).

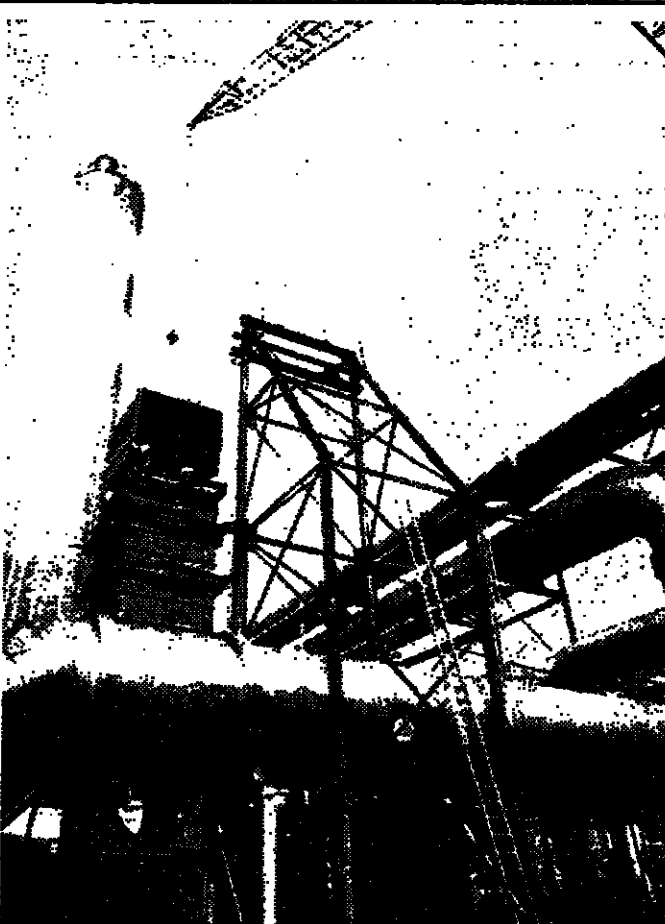
Home Charm Group—On July 12, Mr L. S. Glandfield, a director, disposed of 50,000 shares at 32p.



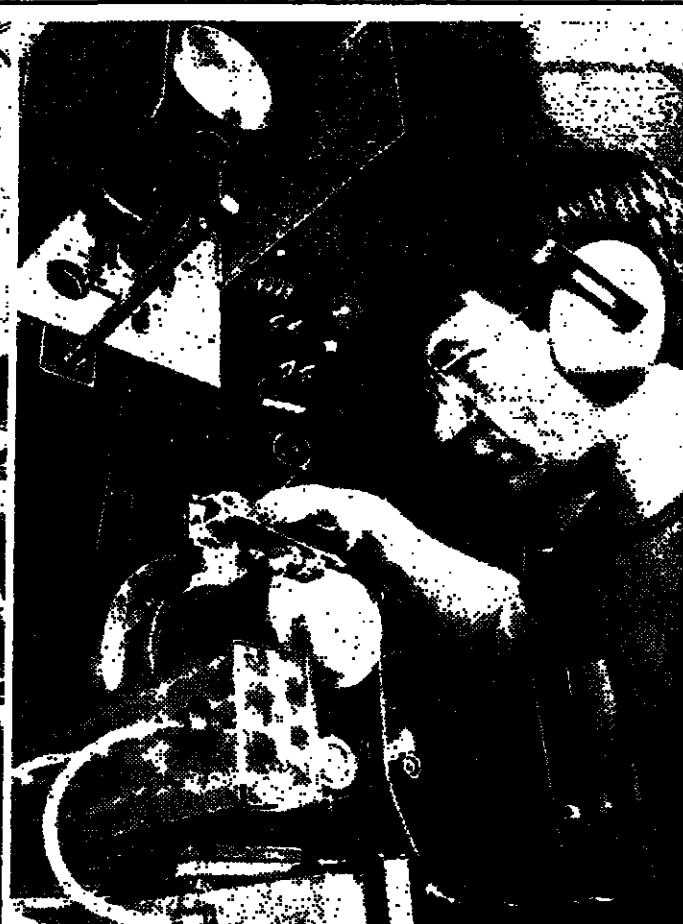
Davy McKee shape and gauge control for steel and aluminium rolling mills in 22 countries.



Fermentation technology, recently applied in this \$185 million ethanol-from-corn project in Indiana.



The Wellman-Lord flue gas desulfurization process combats 'acid rain'—five plants currently under construction in Europe.



A consistently high level of R&D at Davy McKee's Frankfurt-based company Zimmer ensures that it remains without equal in polymer and fibre technology throughout the world.

"PROCESS TECHNOLOGY-KEY TO DAVY'S IMPROVING PERFORMANCE"

Peter Benson, Chairman of Davy Corporation, announcing the company's results for the year ended March 31st, 1985, says that the winning of significant new business is due in large part to Davy's leading position in a number of process technology areas.

Results for the year, with equivalent figures for the previous year are:

	1985	1984
£ million	£ million	
Turnover	581	640
Profit before tax	13.0	7.5
Shareholders' funds	70	65
Earnings per share	10.5 pence	6.3 pence
Dividends per share	3.7 pence	3.7 pence

The Annual Report and Accounts will be sent to shareholders towards the end of August and will then be available to others on request to the Public Affairs Department, Davy Corporation plc, 15 Portland Place, London W1A 4DD. Telephone: 01-637 2821. Telex: 22604.



This advertisement is published by The Burton Group plc, whose directors (including those who have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. Each of the directors accepts responsibility accordingly.

RALPH HALPERN

CHAIRMAN BURTON GROUP PLC

A retail organisation with 1200 stores nationally

- 1977-80 Took over management of Burton - led through precisely targetted chains Top Shop, Top Man, Evans
Market segmentation philosophy implemented
Lifted share price from equivalent of 14p to 450p on Friday.
- 1979-85 Acquisition of Dorothy Perkins, Studio, Harry Fenton. Development of Principles for men and women.
- 1978-85 Developed one of the strongest teams of retailing executives in the UK. Over 200 highly trained and motivated managers producing excellent performances.
Introduction and appreciation of good design in systems, distribution, merchandise manufacturing, shop development: incentive schemes for all staff introduced.
- 1984 "Personal Account" becomes one of Britain's largest and most successful retail credit cards: one million plus active card holders
Over £220 million property assets managed. All retail divisions pay market rents. Over 300 branches added to chains during last 60 months.



SIR TERENCE CONRAN

CHAIRMAN HABITAT MOTHERCARE PLC

A Group having 495 stores in the UK and 255 in the world as at March 1985

- 1964 First Habitat store opens in London
- 1971 Conran Associates Design Consultancy
- 1973 Habitat opens in France. Conran shop London.
- 1975 Habitat Belgium launched.
- 1976 Habitat Profit Linked Share Plan for employees: one of the first of its kind in this country.
- 1977 Conran Stores Inc established in USA
- 1981 Habitat goes public.
- 1982 Habitat and Mothercare merge: today 750 stores in 14 countries.
- 1983 Habitat-Mothercare buys Heals; acquires 48% stake in Richard Shops; Mothercare launches 'NOW', a chain of young fashion shops.
- 1985 Conran Design Group becomes the largest design consultancy in the world.
Acquires stake in FNAC



Before you give them the top jobs at Debenhams, study their CVs.

Shareholders seldom have the opportunity to select staff for the companies in which their money is invested.

That's normally a job for the Personnel Department.

But not this time.

As a Debenhams shareholder you can now have a say in two appointments that will directly influence the fortunes of your company.

And, indeed, your own fortune.

Should you stick with the Debenhams management, whose performance over the last 10 years can only be described as lacklustre?

Or should you get two of the most capable

men in British retailing working for you?

Ralph Halpern led the team that transformed the Burton Group.

Once an outdated and unprofitable outfitters, it's now one of the High Street's most successful retailers, with an unbroken string of increasing profits as proof.

And Sir Terence Conran, chairman of Habitat/Mothercare, has time and again shown the dramatic effect innovative design has at the till.

What these men did for their shareholders, they can do for you.

All you have to do is fill in your form of acceptance and give them the opportunity.

With Halpern and Conran there will be life after Debenhams.

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the listed share capital of Moss Advertising Group plc in the United Kingdom. It is emphasised that no application has been made for these securities to be admitted to listing. Conditionally on such permission being granted 824,580 Ordinary Shares of 5p each of the Company will be placed by Henderson Crosthwaite & Co. A proportion of the shares being placed is available to the public in the market during market hours today.



Moss Advertising Group plc

(Incorporated in England under the Companies Act 1948 to 1985—No. 1843317)

The Group's principal business is that of a regional advertising agency with offices in Sheffield, Leeds and Leicester. Additionally, the Group offers to its clients a range of services in graphic design, corporate identity, public relations, market research and marketing consultancy.

Placing by
Henderson Crosthwaite & Co.
of 824,580 Ordinary Shares of 5p each at 105p per share

SHARE CAPITAL

Authorised: £300,000
6,000,000 Ordinary Shares of 5p each

Issued and now being issued, fully paid: £190,000
3,800,000 Ordinary Shares of 5p each

Particulars of the Company are available in the Extra Unlisted Securities Market Service and copies may be obtained during normal business hours on any weekday (excluding Saturdays) up to and including 5th August, 1985 from:

Henderson Crosthwaite & Co.
194-200 Bishopsgate
London EC2M 4LL
and
at The Stock Exchange

22nd July, 1985

Associated Newspapers Holdings p.l.c.

Half-year ended 31st March, 1985

Year ended 30th September, 1984 £ million	Half-year ended 31st March 1985 £ million	Half-year ended 31st March 1984 £ million
357.8	205.1	173.9
18.8	9.9	6.5
1.2	1.9	0.7
3.0	2.1	1.4
1.7	0.9	0.1
(1.3)	(0.1)	—
23.4	16.4	8.7
(4.9)	(7.7)	(3.2)
18.5	8.7	5.5
(1.2)	(0.4)	(0.6)
17.9	—	—
35.2	8.3	4.9
4.3	1.7	1.4
56.9p	27.6p	16.1p

1. The figures for the year ended 30th September, 1984 are abridged from the accounts for that year which received an unqualified report from the Company's auditors and which have been delivered to the Registrar of Companies.

The profit before taxation for the half year was £16.4 million (1984 £2.7 million), after crediting profits on disposal of properties of £1.7 million (1984 £nil).

Improvements in the performance of the Daily Mail and the Mail on Sunday, which should continue in the second half-year, contributed to the group's increased trading profits.

Provincial newspapers' trading profits were similar to last year, although profits for the full year will be adversely affected by recent NCA industrial action. Euromoney produced improved results and expanded its services to the banking community. Profits from the 13-30 Group in the U.S. also showed a marked improvement. Both should show a similar improvement in the full year.

2. Results for previous periods have been restated to reflect changes in group accounting policies for goodwill and the capitalisation of interest.

Profits for the half-year from Blackfriars Oil Co fell slightly owing to a lower contribution from the Argyl Field. Full year profits may show a decline for the same reason, as well as reflecting a high level of exploration expenditure. First gas was extracted from the Esmond Field on 1st June, 1985, since when full production tests have been successfully accomplished.

Increased dividends were received from the investment in the Canadian forestry products company, Consolidated-Bathurst.

An increased interim dividend of 5.50 pence (1984 4.50 pence) per share has been declared by the Directors and will be paid on 22nd August, 1985 to shareholders on the register at the close of business on 25th July, 1985.

City of Copenhagen

\$15,000,000 9 per cent

15 Year External Loan of 1970

FINAL REDEMPTION OF BONDS

Morgan Grenfell & Co. Limited hereby gives notice that the balance of 2,000 Bonds of nominal value of \$1,000 each are repayable at par from 1st October, 1985 at the offices of any of the Principal Agents for the Loan.

The under-mentioned Bonds which were drawn for previous redemptions have not yet been presented for payment—

1st October, 1975 Redemption 2045		1st October, 1977 Redemption 2045		1st October, 1978 Redemption 2045		1st October, 1983 Redemption 2045		1st October, 1984 Redemption 2045		1st October, 1985 Redemption 2045	
230	231	726	729	2059	2061	3255	3251	3256	4822	5482	5508
5825	5822	8795	8796	8801	8801	8412	8413	8416	8417	8423	8461
447	1948	1057	1058	1300	1301	1302	1303	1304	1305	1306	1307
2082	2189	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890
2563	2567	3023	3024	3025	3026	3027	3028	3029	3030	3031	3032
3814	3850	3852	3853	3854	3855	3856	3857	3858	3859	3860	3861
4298	4384	4385	4386	4387	4388	4389	4390	4391	4392	4393	4394
7689	7682	8396	8397	8398	8399	8400	8401	8402	8403	8404	8405
8822	8823	8824	8825	8826	8827	8828	8829	8830	8831	8832	8833
9209	9211	9212	9213	9214	9215	9216	9217	9218	9219	9220	9221
10008	10011	10012	10013	10014	10015	10016	10017	10018	10019	10020	10021

NOTE: Any of the above Bonds, with relative Coupons attached, presented in the United Kingdom should be lodged for payment in London with:

Morgan Grenfell & Co. Limited,
21 Abchurch Lane,
London EC4N 3DF

Henderson Crosthwaite & Co. Limited,
194-200 Bishopsgate,
London EC2M 4LL

The usual interval of four clear days will be required for examination.

Office of Morgan Grenfell & Co. Limited

FINANCIAL TIMES STOCK INDICES

	July 19	July 16	July 17	July 18	July 19	July 20	1985 High	1985 Low	Since Compilation Low
Government Secs.	85.06	85.39	85.56	85.18	85.12	85.89	85.56	76.08	127.4
Fixed Interest	88.15	88.26	88.00	87.66	87.50	87.58	88.26	82.17	120.4
Ordinary	935.4	932.5	933.5	928.7	927.2	921.6	1024.5	922.7	1024.5
Gold Mines	404.8	407.3	410.8	399.0	399.5	392.4	596.5	592.4	734.7
FT Act. All Share	605.28	602.04	600.90	597.11	599.06	598.91	644.21	591.86	644.21
FT-SE100	1252.5	1246.6	1247.3	1239.5	1243.6	1230.8	1324.4	1206.1	1342.4

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the period 22nd July, 1985 to 21st January, 1986 the Certificate will carry an interest rate of 8% per cent per annum. The relevant interest payment date will be 21st January, 1986 and the Coupon Amount per US\$500,000 will be US\$21,127.60

Agent Bank
Bank of Tokyo International Limited

July, 1985

The Republic of Panama

U.S. \$50,000,000

Floating Rate Serial Notes due 1991

For the six months

23rd July, 1985 to 23rd January, 1986

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 8% per cent per annum, and that the interest payable on the relevant interest payment date, 23rd January, 1986 against Coupon No. 13 will be U.S. \$342.60.

The Industrial Bank of Japan, Limited
Agent Bank

BANCO ESPRITO SANTO E COMERCIAL DE LISBOA

London Branch

US \$25,000,000

Negotiable Floating Rate London Dollar
Certificates of Deposit due 1986

In accordance with the provisions of the Certificates, notice is hereby given that for the six months interest period from 22nd July, 1985 to 21st January, 1986 the Certificate will carry an interest rate of 8% per cent per annum. The relevant interest payment date will be 21st January, 1986 and the Coupon Amount per US\$500,000 will be US\$21,127.60

Agent Bank
Bank of Tokyo International Limited

July, 1985

UK COMPANY NEWS

Tiphook comes back with offer to raise £4.35m

BY LUCY KELLAWAY

THE Tiphook offer for sale, which was aborted last month in the face of dreadful conditions in the issue market, is now going ahead.

Barclays Merchant Bank is offering 5.5m ordinary shares at 110p each, which the bank describes as "slightly lower" than the price originally planned.

The offer represents nearly 40 per cent of the company, which is capitalised at £15.4m, and will raise £4.35m in new money. This will be used to reduce borrowings and as a basis for further expansion.

Tiphook is the largest container rental company in the UK, and among the 20 largest in the world. Via Adamsons, which it bought in 1984 from Acrow's receivers, Tiphook is also the biggest UK manufacturer of containers. The company's third major plant of business is renting trailers, of which it currently owns a fleet of 1,770.

Exports of this USX stock and unbroken growth in both turnover and profits in the last

five years, lifting sales from about £1m in 1981 to £14m in the year to March 1985, and profits from £26,000 to £1.7m over the same period.

While the company says that it is too early to make a forecast for the current year, it is confident that the excellent progress "made in the past will continue."

At the offer price, the shares are an historic 1/2 multiple of 9.6 assuming a nil tax charge. The company says that it has enough off-balance capital allowances to enable it to avoid paying tax for the foreseeable future. An anticipated annual dividend of 3.73p would give the shares a yield of 4.5 per cent.

The application list opens on July 25 and dealings begin on July 31.

Comment

Tiphook is pitching itself into a market that looks no happier than the one it churned three weeks ago, with investors still reluctant to go for anything but

the most keenly priced issues.

Tiphook may just pass the test so long as the market does not confuse it with those controversial container leasing operations which did not earn their promised dazzling returns for private investors. Tiphook, on the other hand, seems to be a well managed company with an impressive growth record. By providing a complete and flexible service on the routes it operates it is at least holding its own against larger U.S. competitors. It has also turned around Adamson with encouraging speed and is thrusting ahead with further expansion plans. There are, however, two black spots on the horizon. First, with 90 per cent of container leasing revenue in dollars, the company's profits may look less glowing if the U.S. currency continues to fall. Secondly, gloomsters in the industry are forecasting overcapacity among the container operators which may not bode well for the leasing companies a year or two from now.

Thorpac lower at £75,000

COSTS OF developing the microwave cookware range and the high charge for borrowing have cut the benefits of increasing sales at the Thorpac Group in the year ended March 31, 1985.

Group sales rose substantially from £2.83m to £4.11m and gross profit showed some increase to £1.8m (1976,000). But after higher distribution and administration costs, and interest charges of £105,000 (£37,000), the pre-tax profit shows a reduction from £106,000 to £75,000. Earnings of this USX stock are a little better at 2.2p (2p) per share, and the final dividend is again 1p for a 2p net total.

The group supplies freezer packages and accessories, but has recently been concentrating on expanding into the microwave cookware and accessories business.

Already in the current year sales have substantially exceeded the equivalent period of last year, and the directors have every confidence that this trend will continue.

As to the effect of development costs and interest charges, they are addressing the problems and are confident that profitability will be restored to satisfactory levels.

F.T. Share Information

The following securities have been added to the Share Information Service: IBL (Section: Electricals), Intercontinental Energy (Oil and Gas), Stormgard (Drugs and Stores), Wold (Food, Groceries).

Penny and Giles beats forecast with 32% rise

Penny and Giles International lifted pre-tax profits by 32 per cent from £257,000 to £339,000 in the year ended March 31, 1985.

The result exceeded the board's forecast of £1,075m made in last December's prospectus at the time of the company's USM placing.

Arising from the increased profitability, the board is paying a final dividend of 1.35p, which is 0.14p more than forecast. State earnings per share improved from 8.35p to 8.59p.

Turnover of the company—a maker of advanced measurement and control instruments—advanced from £11.61m to £14.17m. Exports accounted for £3.54m (£2.41m).

The directors believe the company's diverse outlets ensure that its profits are not influenced adversely by the factors that have been affecting areas of the computer and electronics industries, which are currently out of favour with investors.

The current order position.

COMPANY NEWS IN BRIEF

GLASGOW STOCKHOLDERS Trust returned virtually unchanged net revenue of £432,000, against £425,000, for the six months to end June, 1985. Net asset value amounted to 134p per 25p at the end of the period compared with 108p a year previously. Earnings amounted to 1.27p (1.26p) and the interim dividend is being raised to 0.85p (0.75p). The directors expect to be at least match last year's final of 1.3p.

CARDIFF PROPERTY holding interim dividend at 0.6p net. In half year ended March 31, 1985 turnover was £92,000 (£123,000) and pre-tax profit, £5,000 (£17,000), downturn reflecting costs associated with high interest rates and drop in gross rentals following sale of a commercial property in Cardiff.

ATLANTIC Assets Trust increased its net asset value from 111.6p to 123.9p per share over the year ended June 30, 1985, after prior charges at par. Income for year was £2.38m (£1.78m) and available for ordinary £956,000 (£730,000), equal to 0.79p (0.5p) per share. Dividend is 0.55p (0.5p). Included in net current assets is £11.42m unrealised appreciation on forward sale of \$75m.

COMMERCIAL BANK of Wales has lifted pre-tax profits from £777,000 to a record interim £963,000 for the half year to end-

June 1985. Interest took £4.23m (£3.03m), and tax £345,000 (£230,000). Stated net earnings per 25p share are 3.09p against an equivalent 2.82p.

TOPS ESTATES raised rental income from £24,000 to £178,000 and pre-tax profits from £34,000 to £82,000 in the year ended March 31, 1985. Earnings amounted to 0.924p (0.678p). The company came to the USM for a capital reconstruction that will eliminate the deficit on the P and L account, restoring the board's ability to resume dividends when appropriate.

RADIO CITY (Sound of Merseyside) has called off its bid for Marcher Sound, following a report on financial information relating to that company. The consideration was to be met by Radio City issuing shares, and some 57 per cent of the share and loan stock holders of Marcher had signified their willingness to accept.

ASHLEY INDUSTRIAL Trust made a pre-tax profit of £33,000 in the six months to March 31, 1985 against a £157,000 loss last time which was after a £180,000 exceptional charge. The directors are confident the gradual recovery will continue. Turnover was £886,000 (£901,000) and earnings per 25p share came to 0.66p (3.06p). Plans are in hand for a capital reconstruction that will eliminate the deficit on the P and L account, restoring the board's ability to resume dividends when appropriate.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are in arrears or the sub-divisions shown below are based mainly on last year's timetable.

Company	Future Dates
Barkley Technology	Aug 1
Commercial Union Assurance	Aug 1
Edinburgh American Assets	Jul 25
Mount Charlotte Investments	Jul 24
Finis	Jul 24
A & M Hire	Jul 24
DBE Technology	Jul 25
Gent (S. R.)	Oct 3
Wentham's	Jul 25
Weilman	Jul 25

European Ferries Group Plc (CDRs)

The undersigned announces that as from 25th July 1985 at Kas-Associatie N.V., Spilstraat 172, Amsterdam, dividend coupon No. 1 of the CDRs European Ferries Group Plc, representing 100 5% Redeemable Non-Cumulative Preference shares of £1, will be payable with Dfs. 18.44 net (re dividend for the period 7th September 1984 to 30th June 1985, 4.07% per share).

Tax credit = £1,744 = Dfs. 7.90 per CDR.

Non-residents of the United Kingdom can only claim this tax credit when the relevant tax treaty meets this facility.

AMSTERDAM DEPOSITORY COMPANY N.V.

Amsterdam, 11th July 1985

THE WEEK IN THE COURTS

Customs officers under judicial fire for yacht seizure

IN MODERN times parliament has entrusted the Commissioners of Customs and Excise with extensive discretionary powers in relation to smuggled goods, doubtless in the secure knowledge that the powers would invariably be used both wisely and fairly. The decision of the House of Lords in *R v. Commissioners of Customs and Excise, ex parte Haworth* makes one wonder whether that trust has been misplaced. If so, parliament will be pressed to limit the unbridled power now being exercised by Customs.

The case centred on section 152 of the Customs and Excise Management Act 1878, which is in terms similar to provisions dating back to 1875. The section provides that the commissioners "may, as they see fit," restore anything that has been properly forfeited or seized by customs officers.

An earlier section (section 141) gives the Customs the power to forfeit "any ship, aircraft, vehicle, animal, container or other whatsoever which has been used for the carriage of smuggled goods."

The degree of trust reposed in the commissioners can be gauged by a quite extraordinary power given in another part of section 152. This provides that the commissioners may order any prisoner convicted of a customs offence to be discharged before the expiration of his or her term of imprisonment.

In November 1983 the Chancellor of the Exchequer was asked how often this power has been exercised in the last 30 years. Only one instance is recorded. A U.S. citizen was sentenced at Reading Crown Court in July 1978 to nine years' imprisonment for smuggling heroin into Britain. The U.S. Department of Justice sought his return to the U.S. to face charges and give evidence in a criminal prosecution.

He was released from his English prison the following month and taken by military aircraft to the U.S. As a result of his testimony 15 other persons were convicted on charges of smuggling heroin. He himself pleaded guilty and was sentenced to two years' imprisonment, but put on probation for 10 years.

It is, of course, extraordinary that a public official should ever have the power to override a decision of the criminal courts; such a power is thought to reside exclusively with the Home Secretary, who exercises it with manifest restraint. While it is comforting to find only one recorded instance of the exercise of this power, the fact that it exists at all is disturbing. The more so since last week's case shows that the commissioners think that they are a law unto themselves.

In August 1983 a yacht, *Trelawny II*, was seen by the Padstow lifeboat without navigation lights on the coast of Padstow. Two men on board told the lifeboat that they had missed the tide into Padstow; the coxswain advised them to anchor round the head.

The next day the yacht sailed into Falmouth harbour where she was boarded by customs officers. Nothing was found. But later that day a black waterproof box, attached by a rope to an anchor, was recovered from the sea near Padstow. Mother Mary's Bay by a holidaymaker fishing from a small boat. It contained 2.5 kilos of 100 per cent pure cocaine.

Customs investigation led to three people being charged with smuggling prohibited drugs. The yacht was seized from its owner, Mr Leonard Haworth, in his presence. Although he was arrested he was released on bail and was not subsequently charged. A Customs official noted then that Mr Haworth was "certainly

involved in this importation. In the event of his not being charged it is recommended that restoration of the yacht (the Customs officer's emphasis) be offered to him under any circumstances."

Subsequently Mr Haworth's solicitors wrote to the commissioners asking whether they would exercise their discretion under section 152 and return the yacht to Mr Haworth. The solicitors went on to ask whether the Customs considered their client was "anything other than the innocent owner of the yacht unconnected with the smuggling attempt; if it is alleged that he is connected with the smuggling which took place, would you provide grounds for the allegation?"

The response was less than satisfactory. The Customs said that no allegation of misconduct on Mr Haworth's part was to be implied in the criminal proceedings against the three men, but in the case of yachts and other means of carriage used for smuggling drugs it was the "Commissioner's normal policy not to offer restoration."

Mr Haworth had bought the yacht in August 1982 for £25,600 in France to avoid liability for VAT. In June 1983 Mr Haworth wanted to bring the boat back across the Atlantic, having sailed it out himself. A yachting colleague offered to sail it back and was given the ship's papers and keys to the yacht. Mr Haworth claimed that he had no knowledge of the smuggling.

It was the commissioner's policy in relation to smuggled goods that came under judicial fire. In the court proceedings the commissioners stated that "in the past they exercised their discretion in favour of the owners of such goods where it had been clearly established that the owner was free of any prior knowledge or complicity in the criminal act in question and had acted reasonably so as to, for example, not put his yacht on notice into the hands of strangers without making any inquiry." Of course, the commissioners emphasised, "the decision is based on its own facts." They added that they were "satisfied" that Mr Haworth "was wholly innocent of complicity in the criminal purposes" of the smugglers.

The gravamen of the commissioner's policy was the substitution of suspicion for proof of complicity coupled with their reversing of the burden of proof. It was up to the yacht owner to establish clearly—that is, not just on the balance of probabilities, but according to the higher standard of criminal proof—that he was free of any prior knowledge or complicity.

FT UNIT TRUST INFORMATION SERVICE

GPA gives extra job to Ryan

By Donald Maclean

MR TONY RYAN took over at the beginning of the month as chairman of the CPA Group (formerly Guinness Peat Aviation) which claims world leadership in leasing and remarketing of commercial jet aircraft, on the back of a near-fourfold growth in group net profits, revenues and gross assets in four years.

He moves into the additional job (he was already chief executive) at the ten-year-old group, owned by the UK Guinness Mahon group, which has interests in banking and commodity broking sectors. Aer Lingus, the Irish flag carrier, Air Canada, and General Electric of the U.S., as to 22.7 per

Emhart names Gately at new products group

BY OUR FINANCIAL STAFF

P. Johnson, who became president and chief executive officer in March has been elected to the additional post of chairman. He succeeds, as chairman, Mr. John Kerr, chairman, who resigned after serving in that position since 1981. Mr. Morrison will continue as a director until the next stockholders' meeting April 1986.

★ ★ ★

AMERICAN CENTURY Corporation has made Mr Robert Harrington president and chief operating officer. He was executive-president and chief financial officer of the Texas Savings and Loan Holding Company. Mr John Kerr, chairman and chief executive officer, had held the positions of president and chairman.

★ ★ ★

MOTOROLA, the electronic communications company, has

promoted Mr Carl E. Lindholm to the newly created post of executive vice president, International Operations. Mr Gerhard Schulmeyer succeeds Mr Lindholm as general manager of Motorola's Automotive and Industrial Electronics Group.

MR ROBERT v.d. LUFT has become chairman of the supervisory board of Du Pont de Nemours (Deutschland), as well as chairman of Du Pont de Nemours International. This clarifies the story carried on July 8.

UK APPOINTMENTS

UK: APPOINTMENTS



Mr K. W. Appleton has been appointed director of personnel and external affairs for PILLINGTON BROTHERS. He succeeds Mr David Pilkington, who retires in October, and will be responsible for the personnel function in the company. He has been responsible for the Pilkington Group's external affairs including liaison with national

relations, training, pensions, senior management administration and co-ordination.

*
LONGTON STORAGE & TRANSPORT has appointed **E. B. Riley** as managing director. He was previously operations director, Lowfield.

Mr David Young has joined **DATACIT** as a director.

Mr Khusrow Ruston has appointed **Mr Tony Law** as director in charge of **Towry Law** (Channel Island). He remains a director of **Towry Law** and **Co. The group** has appointed **Mr David Adams** as managing director of **Towry Law**.

Group, has appointed Mr Stewart as sales manager. Mr Stewart is responsible for retail and general bag sales; and Mr Peter Crouch, as sales director for wickedted bag sales.

★

From September 1, Mr John Gordon becomes head of CAPEL-CURE MYERS corporate

★

NEW chairman of the NATIONAL COMMITTEE FOR ELECTORAL REFORM is Charles Morrison, Conservative MP for Devizes. His election

form part of a new investment banking division being constructed by ANZ.

★

Mr J. R. Calder has been promoted to under secretary from September 28 to become director of statistics, INLAND REVENUE.

Mr. J. C. D. Hemsley has been re-elected for a second year as president of THE INSTITUTE OF DENTAL CHEMISTS, while Dr. M. Clarke has been elected senior vice president and also president elect. Mr. J. P. Bidolph has been made a vice

Mr. Michael Evans has replaced Mr. Hyman Wolanski as manager of WYATT's London office. Mr. Evans retains his existing responsibility on the board of Wyatt for the offices outside the U.S. and Canada, and continues

president while the chairman of the education committee is Mr John Foster. Mr Bryan Fisher has been appointed honorary secretary general of the insti-

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on

For further information please write to or telephone:
HUGH SUTTON
Area Manager Africa

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...and the *Journal of the American Medical Association* (JAMA) has been the most influential of the medical journals in the United States. The *JAMA* is a weekly journal that publishes research, clinical reports, and reviews. It is the most widely read and cited medical journal in the United States. The *JAMA* is published by the American Medical Association (AMA), which is a professional organization of physicians. The *JAMA* is a peer-reviewed journal, which means that its content is evaluated by other experts in the field before it is published. The *JAMA* is a leading source of information for physicians and other healthcare professionals. It is also a valuable resource for patients and the general public. The *JAMA* is a journal that is dedicated to the advancement of medical knowledge and the improvement of patient care. It is a journal that is committed to the highest standards of scientific research and clinical practice. The *JAMA* is a journal that is proud to be a part of the medical community and to serve the needs of its readers.

AUTHORISED UNIT TRUSTS & INSURANCES

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MINES--Continued

"Recent Issues" and "Rights" Page 20
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WORLD STOCK MARKETS

Closing prices, July 19

Indices

NEW YORK

DOW JONES									
July 19	July 18	July 17	July 16	July 15	High	Low	High	Low	Change
1,359.54	1,350.82	1,357.57	1,347.88	1,355.45	1,359.54	1,355.45	1,359.54	41.22	+41.22
Home Bldg	80.14	80.25	80.55	80.65	80.46	80.65	80.65	1.23	+1.23
Transport	700.73	696.04	702.6	700.14	699.26	702.6	702.6	12.33	+12.33
Utilities	158.34	157.06	158.34	158.34	158.34	158.34	158.34	10.5	+10.5
Trading Vol	114,651,810	100,150,928	102,990,103	99,000	-	-	-	-	-
Day's High	1,359.54	1,353.24	1,357.57	1,347.88	1,355.45	1,359.54	1,359.54	41.22	+41.22
Industrial div. yield %	4.58	4.59	4.59	4.59	4.59	4.59	4.59	5.10	+5.10

STANDARD AND POOR'S

1985									
July 19	July 18	July 17	July 16	July 15	High	Low	High	Low	Change
216.83	214.47	215.58	214.15	211.78	216.83	211.78	216.83	3.68	+3.68
Comp's	196.13	194.50	195.65	194.78	192.72	195.65	195.65	4.40	+4.40
Industrial div. yield	3.99	3.70	3.72	3.72	3.72	3.72	3.72	4.32	+4.32
Industrial P/E ratio	11.99	11.96	11.90	11.90	11.90	11.90	11.90	10.65	+10.65
Long Gov. Bond yield	10.88	10.44	10.67	10.67	10.67	10.67	10.67	13.31	+13.31

N.Y.S.E. ALL COMMON

1985									
July 19	July 18	July 17	July 16	July 15	High	Low	High	Low	Change
216.83	214.47	215.58	214.15	211.78	216.83	211.78	216.83	3.68	+3.68
Comp's	196.13	194.50	195.65	194.78	192.72	195.65	195.65	4.40	+4.40
Industrial div. yield	3.99	3.70	3.72	3.72	3.72	3.72	3.72	4.32	+4.32
Industrial P/E ratio	11.99	11.96	11.90	11.90	11.90	11.90	11.90	10.65	+10.65
Long Gov. Bond yield	10.88	10.44	10.67	10.67	10.67	10.67	10.67	13.31	+13.31

TORONTO

1985									
July 19	July 18	July 17	July 16	July 15	High	Low	High	Low	Change
2,112.51	2,112.51	2,112.51	2,112.51	2,112.51	2,112.51	2,112.51	2,112.51	2,112.51	0
Comp's	1,961.3	1,945.0	1,956.5	1,947.8	1,927.2	1,956.5	1,956.5	4.40	+4.40
Industrial div. yield	3.99	3.70	3.72	3.72	3.72	3.72	3.72	4.32	+4.32
Industrial P/E ratio	11.99	11.96	11.90	11.90	11.90	11.90	11.90	10.65	+10.65
Long Gov. Bond yield	10.88	10.44	10.67	10.67	10.67	10.67	10.67	13.31	+13.31

MONTREAL

1985									
July 19	July 18	July 17	July 16	July 15	High	Low	High	Low	Change
1,184.6	1,184.6	1,184.6	1,184.6	1,184.6	1,184.6	1,184.6	1,184.6	1,184.6	0
Comp's	1,061.3	1,045.0	1,056.5	1,047.8	1,027.2	1,056.5	1,056.5	4.40	+4.40
Industrial div. yield	3.99	3.70	3.72	3.72	3.72	3.72	3.72	4.32	+4.32
Industrial P/E ratio	11.99	11.96	11.90	11.90	11.90	11.90	11.90	10.65	+10.65
Long Gov. Bond yield	10.88	10.44	10.67	10.67	10.67	10.67	10.67	13.31	+13.31

NEW YORK ACTIVE STOCKS

Change									
Stocks	Trading	Volume	Price	Change	Stocks	Trading	Volume	Price	Change
IBM	1,200	120,000	120.00	+1.00	IBM	1,200	120,000	120.00	+1.00
AT&T	1,000	100,000	100.00	+0.50	AT&T	1,000	100,000	100.00	+0.50
GE	800	80,000	80.00	+0.25	GE	800	80,000	80.00	+0.25
Westing	600	60,000	60.00	+0.10	Westing	600	60,000	60.00	+0.10
Johnson	500	50,000	50.00	+0.05	Johnson	500	50,000	50.00	+0.05
Boeing	400	40,000	40.00	+0.02	Boeing	400	40,000	40.00	+0.02
McDonald	300	30,000	30.00	+0.01	McDonald	300	30,000	30.00	+0.01
General	200	20,000	20.00	+0.00	General	200	20,000	20.00	+0.00
Merck	100	10,000	10.00	+0.00	Merck	100	10,000	10.00	+0.00
Amgen	50	5,000	5.00	+0.00	Amgen	50	5,000	5.00	+0.00
Novartis	25	2,500	2.50	+0.00	Novartis	25	2,500	2.50	+0.00
Roche	10	1,000	1.00	+0.00	Roche	10	1,000	1.00	+0.00
Novartis	5	500	0.50	+0.00	Novartis	5	500	0.50	+0.00
Roche	2	200	0.20	+0.00	Roche	2	200	0.20	+0.00
Novartis	1	100	0.10	+0.00	Novartis	1	100	0.10	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
Roche	0	0	0.00	+0.00	Roche	0	0	0.00	+0.00
Novartis	0	0	0.00	+0.00	Novartis	0	0	0.00	+0.00
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NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued on Page 20

AMEX COMPOSITE CLOSING PRICES Closing prices July 1

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FINANCIAL TIMES SURVEY

Bahrain

The Gulf recession is hurting Bahrain. The last year has been free of serious political incidents but unemployment is emerging as a problem. Bahrainis regard this as more important than sectarian issues.

Worries surface as recession bites

By MICHAEL FIELD

"BAHRAIN MAY be on the verge of serious economic problems that will turn into social problems," said a member of the island's expatriate community recently. The speaker was a man who had spent a number of years in Bahrain and knew the society well.

"You find a sense of foreboding," he continued. "And sometimes it is difficult to see how Bahrain is going to get through — though one assumes it will always have Saudi support."

In the last 12 months, as the recession caused by the oil glut has taken hold of the Gulf, Bahrainis have become much more worried about their future. The Bahraini economy is not like those of its big oil exporting neighbours, where the recession has shown itself in a big drop in oil revenues and a huge cut in the award of Government contracts, but little prospect of real hardship for the citizens.

Rather as a service economy bolstered by oil exports which are not big enough to fluctuate much in response to the level of demand, Bahrain is experiencing a moderate decline in activity across the board, more as industrialised countries do in recession. This may not sound very alarming but it brings with it the prospects of a fall in personal incomes, dashed expectations and unem-

ployment, which in a relatively poor Gulf economy are serious. Ironically these problems have come at a time when in a purely political sense the island is more relaxed than it has been for most of the time since the Iranian revolution of February 1979.

What "incidents" there have been are regarded as being rather minor. Recently there have been some arrests in the security services, linked to a reported discovery of arms at the Iraqi embassy, though neither the arrests nor the presence of arms have been confirmed by the Bahraini authorities. They are not thought to be associated with any serious challenge to the regime, but are simply a reflection of the violent state of the Middle East and the chronically conspiratorial nature of Arab politics.

A cache of arms that was found in a village last year was believed to have been a relic of the plot of December 1981, when a group of Bahraini Shias, with the backing of Iran, was discovered to be planning a coup d'état. The Shias, who make up some 70 per cent of the Bahraini population, are members of the schismatic and mystical sect of Islam which is associated with the poor and downtrodden.

Last year the Government closed the Islamic Enlightenment Society, a Shia self help organisation, which ran schools, taught advanced courses and played an important role in the



life of the majority community. It has been suggested that the Government might have been wiser to have left the society in being and had Shia activities more in the open, but in any event the closure does not seem to have had specific disruptive consequences.

It is thought that the extremist element among the Shias, which would favour the introduction of an Islamic republic in Bahrain, may amount to anything between 10 and 40 per cent of that community. There must be more who would broadly support a redistribution of wealth and an improvement in the Shia social status.

Despite this there seems to be less consciousness of the division between the Sunni and Shia communities than there was in the early days of the revolution in Iran, which has a predominantly Shia population. Although in the past there have been many incidents of

Sunni-Shia violence in Bahrain, the problem is more episodic than chronic. The leading families of the two communities enjoy good relations with each other.

Tensions between the two communities have also been lessened recently by Bahrain's more relaxed view of Iran. Nobody trusts the revolutionary regime in Tehran but it is felt that there is much less chance of the revolution being exported than there was in its early years.

Certainly there has been less fear of the Gulf war affecting Bahrain since Iranian and Iraqi attacks on oil tankers began last summer and proved not to be the disaster for the region that had been feared.

All of these issues of sectarian divisions, conspiracies and external violence are much less to the forefront of people's minds than the state of the economy. The downturn is showing



The Prime Minister, Sheikh Khalifa, presses the button which slides the last box girder (left) into place in the causeway linking Saudi Arabia and Bahrain

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itself in a reduction in Government spending, the closure of some of the offshore banks and a fall in the expatriate population.

Most businesses are suffering from declining turnovers and much reduced profits.

For the middle classes the pain of recession has been made more acute by their resentment of the business dealings of Sheikh Khalifa bin Sulman, the Prime Minister, and a few other members of the ruling Khalifa family, notably his younger brother, Sheikh Mohammad.

It is admitted that by the standards of the business dealings of ruling families elsewhere in the Arabian Peninsula, Sheikh Khalifa's activities are minor. In a Bahraini context, however, they are unusual and they attract attention. For the Bahraini population

as a whole—including the business community when it takes a broad view of the future—there is the worry of what might be the social consequences of unemployment.

Bahraini nationals make up a much bigger proportion of the total population of the island than do other Arabian nationals in their own states.

In Bahrain there is a genuine working class of nationals, which there is not anywhere else in the Gulf. The Bahraini population, particularly the Shia element, is growing fast.

There are already signs that unemployment is increasing. There are isolated cases of graduate unemployment, which could be very destabilising if it increases, and there is also unemployment among school leavers.

These people tend to write to the newspapers in groups, signing themselves, for example, "eight school leavers from Hidd," and saying that despite their efforts they have been unable to find jobs.

Unemployment benefit does not exist in Bahrain or other Arab countries. In societies which are still based on the extended family the benefit is thought to be unnecessary and liable to discourage work.

Many of those who do not face unemployment are having to reconcile themselves to reduced expectations.

In the past 15 years of rapidly rising prosperity a large number of Bahrainis — predominantly Shias — from relatively poor families have joined banks or industrial companies at a young age and worked their way up into technical or middle management jobs.

They have become members of the middle classes, but their children and younger brothers and members of other poor families are going to find it difficult to copy their progress.

"These social problems are much more important than sectarian things," is the judgment of a prominent Bahraini. "It is poverty and hunger that drives people to revolution. I remember that a taxi driver said to me once 'whenever I'm out of a job I go on to the streets,' and I

think there is a representative view."

Nobody in Bahrain is suggesting that the island faces any immediate prospect of political upheaval. But it is noticeable that people who a year or so ago were loyal, prosperous and conservative, albeit liable to complain about Government policies in the universal way, are still basically loyal but are more disturbed and resentful.

This must make Bahrain more vulnerable to external subversion and the effects of unemployment.

What makes it more likely than not that the island will pull through the difficult period ahead is that it enjoys a form of national consensus.

Bahrainis realise that they are not as well endowed with oil as their neighbours and that they therefore have to work harder if they are to prosper. They live under what has always been a religiously and socially tolerant ruling family and this, combined with the long British influence, has given society a pragmatic, moderate and very decent approach to solving its problems.

Above all even the most dissatisfied Bahrainis realise that for all its shortcomings the regime under which they live is much pleasanter than any likely alternative.



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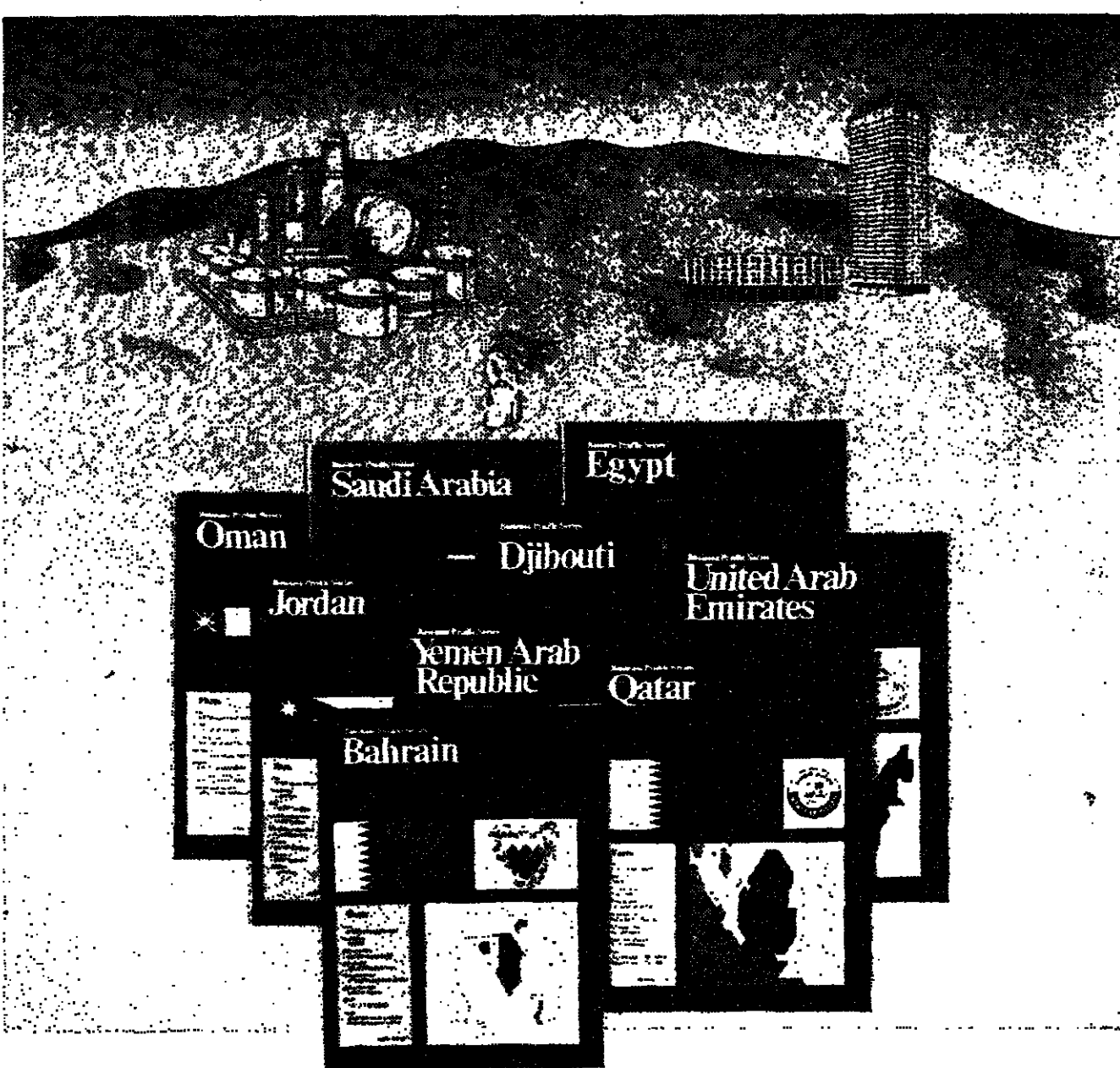
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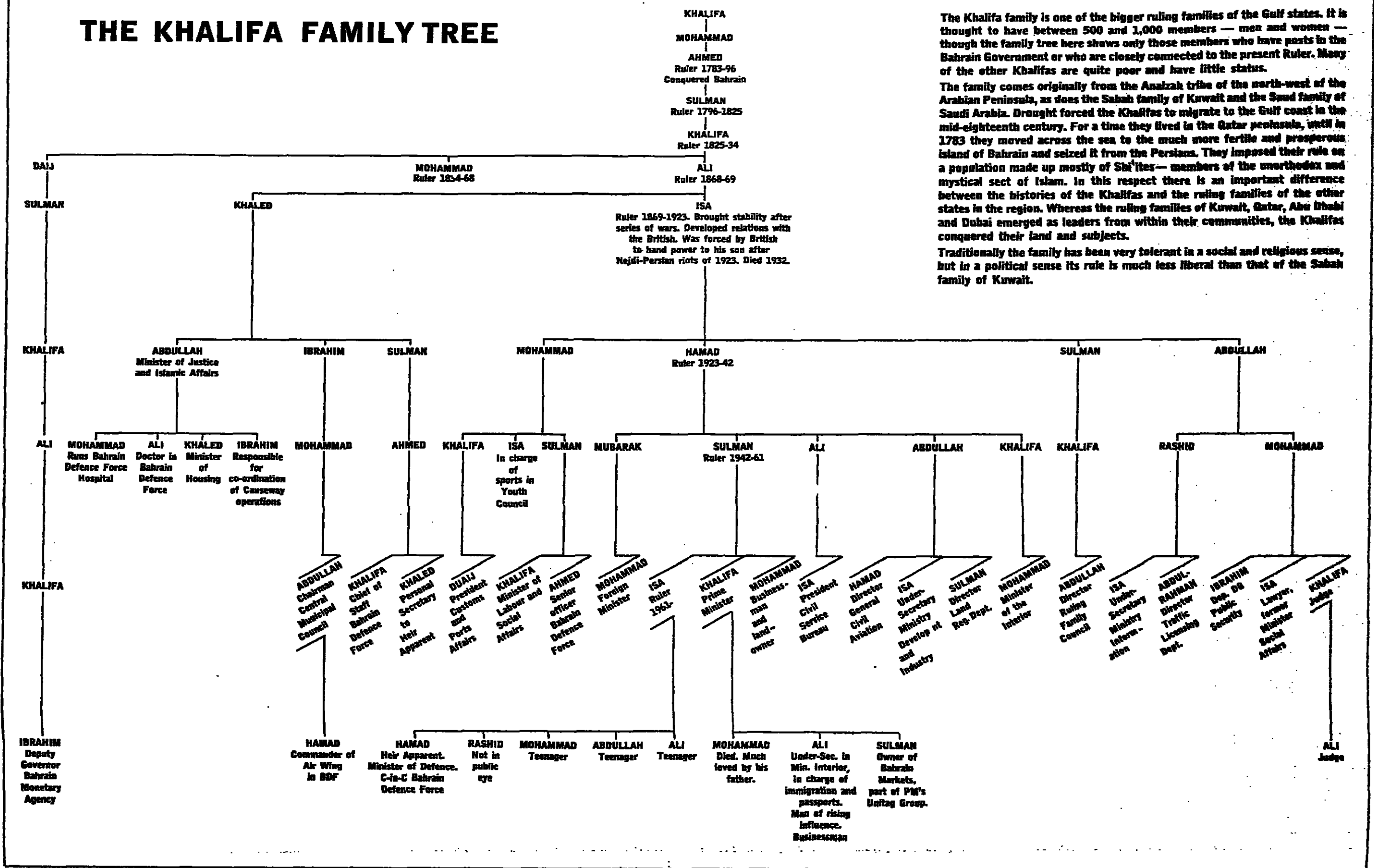
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BAHRAIN 2

THE KHALIFA FAMILY TREE



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PROFILE: SHEIKH KHALIFA BIN SULMAN AL KHALIFA

Lonely man at the helm

"Sheikh Khalifa is a tough, complex man," a Westerner who had got to know him well once remarked. "His brother (Sheikh Isa, the Ruler) has a black and white view of the world. He speaks in very short sentences and produces simple ideas — though he has sound instincts. Khalifa on the other hand sees many sides to every question and sometimes he is rather difficult to follow."

Bahrain is unique among the Arabian Peninsula oil states in that the effective power in the country is not the Ruler, who has a position which is slightly like that of a constitutional monarch, but the Ruler's brother, Sheikh Khalifa.

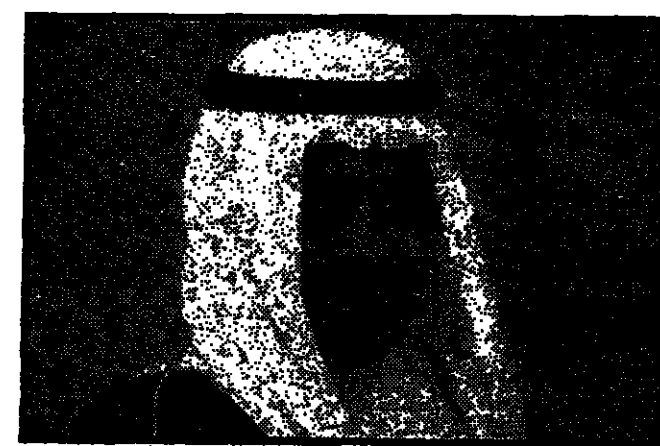
All the problems that face Bahrain are Khalifa's responsibility. It is he who has to take the difficult decisions and it is to him that people go when they want the Government to act on some issue. He is not popular, but he is feared and respected.

'It is he who has to take the difficult decisions'

When people go to his majlis (council chamber) with requests or complaints they say what they want to say to Khalifa quietly when their turn comes. There is none of the noisy general debate or outspoken direct criticism that one finds in the majlis of Sheikh Saad al Abdullah, the Kuwaiti Prime Minister, for example. When they are not being spoken to, Sheikh Khalifa's visitors sit in silence.

The Ruler, Sheikh Isa, in contrast, has a rather pleasant job. When people have been offended by Khalifa's decisions it is Isa — who is a smiling figure with immense charm — who smooths things over. Isa is extremely popular; he is generous and accessible. Although he has handled the day-to-day administration of his state to his brother, it is known that ultimately, on the biggest issues, it is to him that the ruling family looks for judgment and on these matters his people trust him.

What makes the Prime Minister a controversial person is not much the difficult role he plays in Government — which people appreciate is bound to be less popular than his brother's — but his business dealings, conducted mainly through the Unitaq Group. Much of this operation is registered in the names of his sons, Ali



Trevor Humphries

and Sulman, and it is run by a Palestinian manager, Jamil Waki.

It has interests in contracting, trading, insurance, travel and the Intercontinental Hotel. Sheikh Khalifa has other real estate interests, including a large share in the Hilton, outside the group.

Unitag has never been popular among the Bahraini merchant community, but in the present climate of recession it has become particularly controversial. It is said that the group is continuing to expand while everyone else is taking a cut in profits. The company is accused of poaching agencies and contractors.

Summing up people's attitude to Sheikh Khalifa's activities recently a young intelligent Bahraini said: "People have more time today. They used to be busy wheeling and dealing now they are sitting in their offices drinking tea and thinking about the things that annoy them. The Ruler is so popular but the others at the top of the family are greedy."

'He is not popular but is feared and respected'

"It's a shame because Sheikh Khalifa just doesn't notice or realise how it is antagonising people. He's still expanding his business... he doesn't realise that he has to take a big cut in income like everyone else."

The big question in the minds of Bahrainis and foreigners alike is what motivates Khalifa in his business. One suggestion is that he is accumulating wealth for the benefit of his sons in the jockeying for power which there is bound to be, to some extent, when authority passes from the present generation to the next. Given that the

should pay its way in a relatively poor state, rather than being a burden on the Treasury. He tries to stop some of his more extravagant relations squandering money.

His eldest son, Muhammad, who is said to have been exceptionally able but died of heart disease some ten years ago, was a proponent of these ideas. Khalifa adored Muhammad and it may be that he sees himself now as fulfilling his son's wishes.

Certainly Khalifa does not think of himself as an avaricious man. He believes that his profits and commissions have been lower than those of others and regards some of his early ventures as having made losses.

He has a great sense of being wronged. He is hurt by the fact that all the unpopular things are blamed on him while his brother is so popular and he knows that when the Ruler dies and Sheikh Hamad bin Isa succeeds he will be replaced.

Michael Field

الإعمال

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Published every two weeks
by Al Ittissad Wal Aamal

in association with Financial Times
-MidEast Markets.

France: 5, Rue Keppler 75118 Paris C/O Promotion
Tel: 7206337-7206461 Telex: 613025 P.

The English-language MidEast Markets newsletter is obtainable from
Nina Murphy, Marketing Department, Financial Times Business
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BAHRAIN 3

The effects of the oil glut are feeding through to other sectors

Spending to be cut in budgetary squeeze

Economy
MICHAEL FIELD

AFTER THREE years in which government and business have been worrying about what would be the effect of the oil glut, the Bahraini economy has now properly entered a recession. The main problem is the downturn has not had any drastic results.

Three of the 77 offshore banks have left. The closure of some of these banks, which are the core of the service economy Bahrain has developed in the last ten years, had been a subject of nervous speculation for a long time. But in the event their departure was accepted as one of the normal features of a recession.

Several bank representative offices have closed. More seriously some of the offshore banks have shut parts of their operations and/or fired staff.

The expatriate population, which six months ago was estimated to number about 100,000 in a total population of some 380,000, has fallen by 15 per cent so far this year. This is putting pressure on the margins of importers and on rents, which for good-quality property have fallen by 50 or 60 per cent in the past two years.

Much of the new residential and office property in the "diplomatic area", a large piece of reclaimed land next to the Manama-Muharraq causeway, is proving impossible to let. It is said that many of the owners of buildings in this area will soon find it difficult to repay their bank loans.

What there have not been in Bahrain are the bankruptcies or debt rescheduling of contractors that have occurred in Saudi Arabia, or the banking problems of the United Arab Emirates. Nor are banks having difficulties, as they are in Saudi Arabia and the UAE, in obtaining repayment of loans they have made to contractors. In those two countries there are no modern laws on loan security.

In Bahrain one contracting-cum-industrial company—the United Building Factories—has had to be rescued by the Government, though it has recently been sold to private business. The Arab Asian Bank is undergoing a distressed take-

over. And a large number of offshore companies are still in great difficulties as a result of their dealings in Kuwait on the Souk al Manakh, the unofficial stock exchange, which crashed in 1982. None of these corporate problems is regarded as very serious for the economy.

Bahraini government revenues are stagnant, but because the country is not dependent on large oil exports which are prone to fluctuate with the state of the market, they have not declined significantly. According to the revised budget estimates for this year they will be BD 550m, which is only marginally below the peak revenues of BD 556m received in 1982.

The Government has been able to increase its non-oil income, and last year it was able to pay the decline in production of its own tiny oil field—it hopes for the field produces 40,000 barrels a day, about a third of the state's total oil revenues, the balance comes from Saudi Arabia.

The problem for the Government, and the reason for the present budgetary squeeze, is that spending has steadily been rising, particularly in the recurrent part of the budget.

In the downwards revision of the 1985 budget—in Bahrain calendar years and fiscal years are the same—the Government is keeping capital expenditure at the original level but is trimming current spending by between 5 and 10 per cent. The revisions have not yet been published—they have only recently been agreed—but in general terms it has been made known how the Government intends to achieve its aims.

Lower rents

It is asking ministries to negotiate lower rents, it is reducing the numbers of direct telephone lines in government offices and it is eliminating the new positions in the civil service. It is also cutting the amount of overtime people will be allowed to do in government offices.

Given that Bahraini budgets are normally marginally under the limit, the Bahraini bureaucracy, like the bureaucracies in all the Arabian oil states, is unusually wasteful, these seemingly trivial economies are expected to achieve the desired saving this year. In the next two years when it is intended that there will

Revenue and expenditure

(BD m)	1982	1983	1984	*1985	†1985
Total revenue	556.1	484.8	548.8	575.0	549.6
(a) Oil revenue	401.9	328.5	355.4	361.4	n.a.
(b) Non-oil revenue	154.2	156.2	193.4	213.6	n.a.
Total expenditure	472.6	535.4	538.6	575.0	549.6
(a) Recurrent	296.3	309.9	325.0	364.5	339.1
(b) Capital	174.3	222.0	210.0	210.5	210.5
(c) Others (including University College expenditure)	—	3.5	3.6	n.a.	n.a.

* Original estimates. † Revised estimates.

GDP/GNP

(BD m)	1981	1982	1983	†1984
GDP (current prices)	1,615.3	1,746.0	1,822.1	1,895.0
GNP (current prices)	1,239.1	1,398.1	1,488.8	1,548.4

† Estimate. Source: Ministry of Finance.

Balance of payments estimates

(BD m)	1981	1982	1983	1984
A. Trade balance	+ 83.6	+ 65.9	- 53.8	- 146.0
B. Services, transfers, capital (net)	+ 224.4	- 1.1	+ 106.2	+ 106.9
C. Overall balance (A+B)	+ 308.0	+ 64.8	+ 46.4	- 39.1

again be 5 per cent cuts in recurrent spending, it is realised that the process will be much more painful. Ministries are being asked to decide themselves what economies they wish to make.

In general it remains the Government's policy to continue balancing its budgets. To raise more revenues it may privatise some state corporations—the Government has holdings in Gulf Air, several heavy industries, hotels and even cinemas. The problem with this idea is that the share market is very depressed at present.

It has thought of levying personal or corporate taxes, an idea which all the peoples of the area regard as dangerously socialist and thoroughly un-Arabian. In this case the specific difficulties are that there is not a very big tax base, the percentage would have to be so low that it might not justify the cost of collection, and it might cause businesses to move to other states in the region.

It would be more logical for the Government to reduce the subsidies it gives to its popula-

penditure is the most realistic one.

The issue in the back of the Government's mind at all times—and the reason for the insistence on maintaining capital expenditure—is the growing size of the Bahraini workforce and the prospect of unemployment.

The population of Bahraini nationals at present is about 280,000 and the Bahraini workforce is about 70,000. As in other states in the area, half of the population is under 19 and 4,000 schoolleavers, equivalent to nearly 6 per cent of the existing pool of labour, are coming onto the job market every year.

Between now and the end of the century the Government expects the Bahraini labour force to increase by nearly 100,000.

Officials talk of several solutions to this extremely daunting problem. First it is hoped that young Bahrainis will go to find employment in neighbouring states, where the bulk of the workforces at present are made up of expatriates. It is suggested that they might take industrial jobs in the Saudi Eastern Province, though they do not like going to Saudi Arabia, and banking jobs in the United Arab Emirates. The Saudi-Bahrain causeway may open the Saudi market to them.

Second, the Government intends to invest in high technology and high added value industries and services geared to the Gulf market as a whole. It recently signed an agreement for the development of an instrumentation and electronic control systems industry—installation and maintenance business. The creation of jobs in this type of business is particularly effective in leading to the creation of less skilled secondary jobs.

Somewhat piously it is hoped that the private sector will play a role in investing in industrial development—just as it is hoped it will do in Saudi Arabia.

Third and lastly, government officials point to the expatriate labour force—90,000 out of a total expatriate population of about 100,000 at the beginning of 1984—and suggest that most of it can be repatriated by Bahrainis.

In practice this will be much more difficult than it sounds. At the top end of the spectrum

there are managerial and highly technical jobs for which Bahrainis generally do not have the skills, though there are many very impressive exceptions to this. At the other end there are rough labouring jobs which Bahrainis simply will not do.

Where there seems to be most scope for Bahrainisation is in the middle—in the ranks of clerks and moderately skilled technical labour. Already there are predominantly Bahraini labour forces in the oil and aluminium industries, which have run good training programmes.

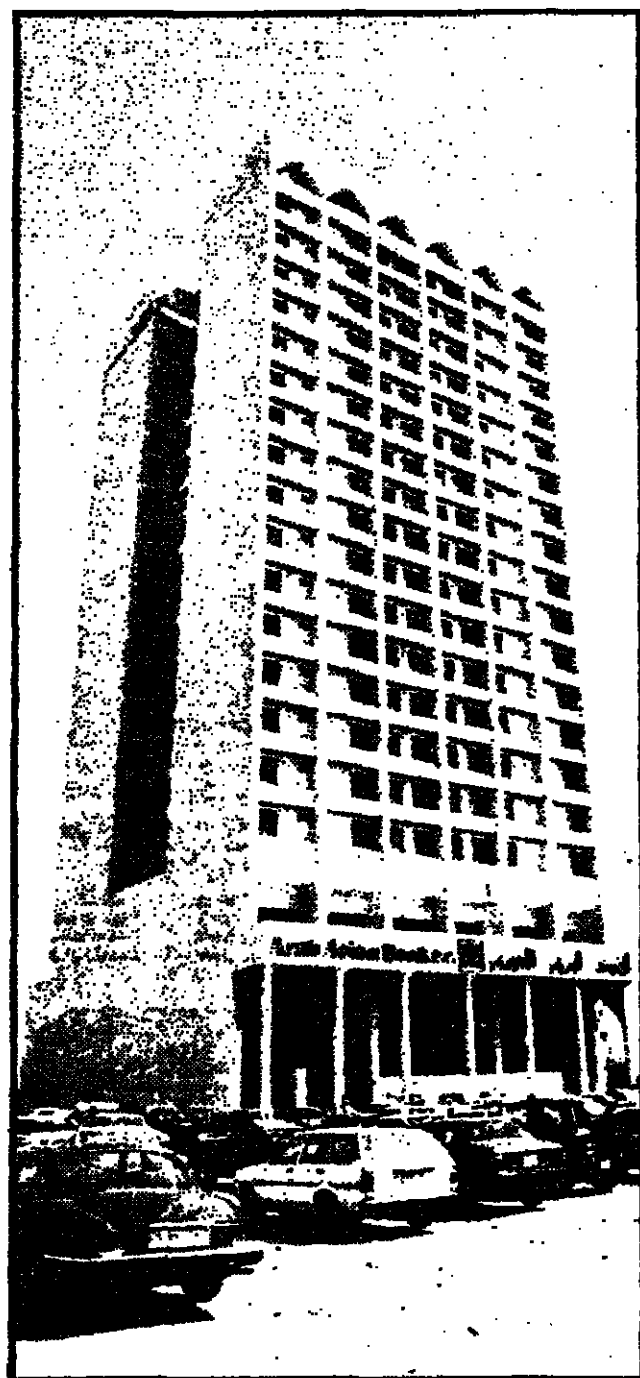
The problem with the middle of the labour market is that many of the jobs are in the private sector. Whereas the Government and big state organisations manage to employ almost entirely Bahrainis and foreign companies, such as banks, employ about 60 per cent Bahrainis. The Bahraini private sector employs only 20 per cent Bahrainis.

Clerical jobs in private business have become "typed" as Indian jobs and they do not appeal to Bahrainis. Furthermore private businessmen, who are a powerful force in Bahraini society and can ignore the Ministry of Labour, prefer to employ Indians. They are already trained, they speak English (of a special sort) and they can be worked harder.

The Government hopes that if it can give the private sector the incentive, in the form of a pool of well-trained middle echelon labour, it will decide that the advantages of Indians are outweighed by the cost of having to provide them with housing and air tickets.

To produce this type of labour and the skilled labour that will be needed by the hoped-for new generation of industries, the Government is trying to reform the Bahraini educational system. It wants to have people at the undergraduate level pursue their education in Bahrain rather than in the West and it intends to develop polytechnics to make this possible.

The emphasis is to be on an educational system moulded to the country's economic requirements. But whether this and the Government's other job creating policies will be enough to absorb the flood of Bahrainis coming onto the job market is an open question.



Terry Kirk

The Diplomat Tower (above) owned by Sheikh Mohammad bin Khalifa Al Khalifa, the Minister of the Interior, is best known as the Arab Asian Bank building. The bank arranged 100 per cent loan finance for its construction, but although its name is writ large it occupies only a couple of floors. Earlier this year, Arab Asian became technically insolvent and was bought for \$1 by Middle East Finance Group, a minority shareholder. MEFG is owned by the Bin Mahfouz and Al Kaaki families of Saudi Arabia, who also control National Commercial Bank.

The former chairman of Arab Asian, Hussain Najadi, is held in gaol. He has been refused bail. No formal charges have yet been laid.

He is the one who stands to lose most from the affair, since he was the biggest single shareholder, after buying out Sheikh Fawaz bin Mohammad Al Khalifa, the Interior Minister's son.

Gloomy outlook for oil-based projects

Still in the miserable Eighties

Industry
MARY FRINGS

"If I were a man of guts and had the money, I would drill it tomorrow. But who is going to take me seriously in the summer of 1985?"

THE SPEAKER is Mr Youssef Shirawi, Minister of Development and Industry. The topic is a heavy oil conversion project which has been on the shelf for the past two years. His faith in the proposed joint venture with Kuwait and Saudi Arabia is based on forecast world demand for oil products in the 1990s—and he believes a 30,000 barrels a day hydrocracker will eventually be built in Bahrain.

"Once we get rid of the miserable eighties."

Without it, Rapco's ageing 250,000 b/d refinery may be less able to meet the challenge of new and expanding regional refineries backed by their own crude.

Bahrain's crude production is only 40,000 b/d, although the 100 per cent state-owned producing company, Banoco, is embarking on a five-year development drilling programme and has succeeded over the past three years in arresting the historical 5 per cent annual decline.

In the offshore concession area leased to KUPPEC (Kuwait

Foreign Petroleum Exploration Company) drilling will start in October but hopes of a major new find are not high.

In this situation, the shareholders in Rapco (Government 60 per cent, Caltex 40 per cent) purchase feedstock either from Saudi Arabia at official prices, or on the spot market. The average (official) price of crude FOB is \$20.75 a barrel, while the mean products price was recently \$26.35—from which must be deducted the cost of refining.

Inevitably, refining costs per barrel go up as throughput drops, and the refinery has been running well below capacity since 1982. In the first half of this year the average crude run was nearly 30,000 b/d down on last year's 198,000 b/d.

Bright spot

There is more than a possibility that the operation would have been shut down, but for majority government ownership and the consequences of putting 3,000 Bahrainis out of work. As it is, manpower has been reduced from a 1982 peak of 4,450 to under 3,600, although in the case of Bahrainis this has been achieved by natural attrition.

The only bright spot on the oil scene is the five-year-old Banaga liquefaction plant, where contribution to state revenue during 1984 amounted to \$57m in the form of taxation, dividends and newly-introduced feedstock charges. The process is based on oil-associated gas and the output of more than 3m barrels a year of propane, butane and naphtha is purchased by Caltex, one of two 12½ per cent shareholders.

For the Arab Iron and Steel Company (AISCO), the "miserable eighties" brought a Gulf war which closed 2m tonnes per year of steel-making capacity in Iran and Iraq, and snatched away 50 per cent of its natural market even before the \$310m pelletiser went into production.

The first ship bringing iron ore from Kudremukh in India embarking westward, and although the 3m tpy pelletiser was inaugurated on schedule, on December 12 last year, there has been litigation over letters of intent for a marine works sub-contract and differences with the main contractor, Kobe Steel, which led to encasement of the performance bond.

That problem was resolved amicably and the guarantee was completed on May 5, but the plant then closed for eight weeks with its stockyards full of unsold pellets.

When it reopened on July 6, it had the firm prospect of only five weeks work, with small orders from Germany, Portugal and Turkey and a second 20,000 tonne shipment for Hadeed in Saudi Arabia.

Hadeed has promised to take another 60,000 tonnes before the end of the year, although the Saudis are believed to have advised against the plan to build a regional pelletiser in the first place and neither they nor the Bahrain Government have a direct investment in it.

In the short-term, AISCO's survival hangs on the willingness of its mainly Kuwaiti and pan-Arab shareholders to support it, pending an improvement in the world steel market and the end of the Gulf war.

Gulf Petrochemical Industries Company (GPIC), whose \$450m ammonia and methanol complex has just gone into pilot production, does not have the same marketing problem; that has been passed on to Bahrain's joint venture partners, Saudi Basic Industries Company (SABIC) and Petrochemical Industries Company (PIC) of Kuwait.

There seem to be better prospects for downstream petrochemical development (into intermediate products) than for establishing a direct reduction steel plant in Bahrain to support AISCO.

The shiprepairing industry continues in deep recession, as a result of the oil glut and the Gulf war. In the first half of this year the Opec-owned Arab Shipbuilding and Repair Yard (ASRY)—which may also be feeling the cold wind of competition from Dubai

It gained no new steel fabrication orders, which contributed a third of 1984's gross revenue of \$16.6m, although ongoing work will continue until the end of 1986. The results are disappointing after ASRY had achieved a respectable 12 per cent share of the world vicer repair market and almost reached breakeven point with average 1981-82 revenues of \$30m. London-based Maynard Shipbuilding Consultants have

now been called in to devise a strategy for the future.

The smaller yards are also suffering. Although BASREC stayed in the black, its operating profit of BD 370,000 (\$960,000) was 50 per cent down on the previous year, and Bahraini Shipway made a loss. The company has terminated its 30-year-old management contract with Gray MacKenzie and plans to cut staff and diversify its activities.

The aluminium industry is in better shape, although the going is getting harder. Production at the ALBA smelter in 1984 was a record 177,288 metric tonnes, and trials are going ahead on the first stage of a retrofit programme aimed at increasing output by up to 15 per cent, without consuming more power.

BALCO, which markets the Saudi and Bahrain Government's 78 per cent share of metal artefacts to struggle through this year with a modest profit, despite the drop in world prices. After earning nearly \$40m in 1984.

Joint venture

June 30 marked delivery of the first 9 m rolling slab for testing by the joint venture Gulf Aluminium Rolling Mill, which is on schedule for commercial production by November. GARMCO is already "pre-marketing" using other manufacturers' sheet products to establish customer relationships, and reports an encouraging response both regionally and internationally. With a 40,000 tpy rolling mill, and a 6,000 tpy foil plant due for completion in 1988, GARMCO will be ALBA's most important local customer.

Among the smelter's existing satellites, the Government-owned extrusion company, Balenco, operated profitably last year, with production up from 4,400-4,800 mt and a 20 per cent increase in revenue.

But the privately-owned Midal Cable has been hit by the reduction in regional electrification programmes. A plan to produce its own alloy has been postponed, although the company is buying in metal to make alloy cable and has diversified into other wire and insulated products.

Metal throughput last year was down from 13,000 to 11,000 mt, but has recovered in the first half of 1985 to between 6,000 and 7,000 mt. The bulk of the product goes to Saudi Arabia.

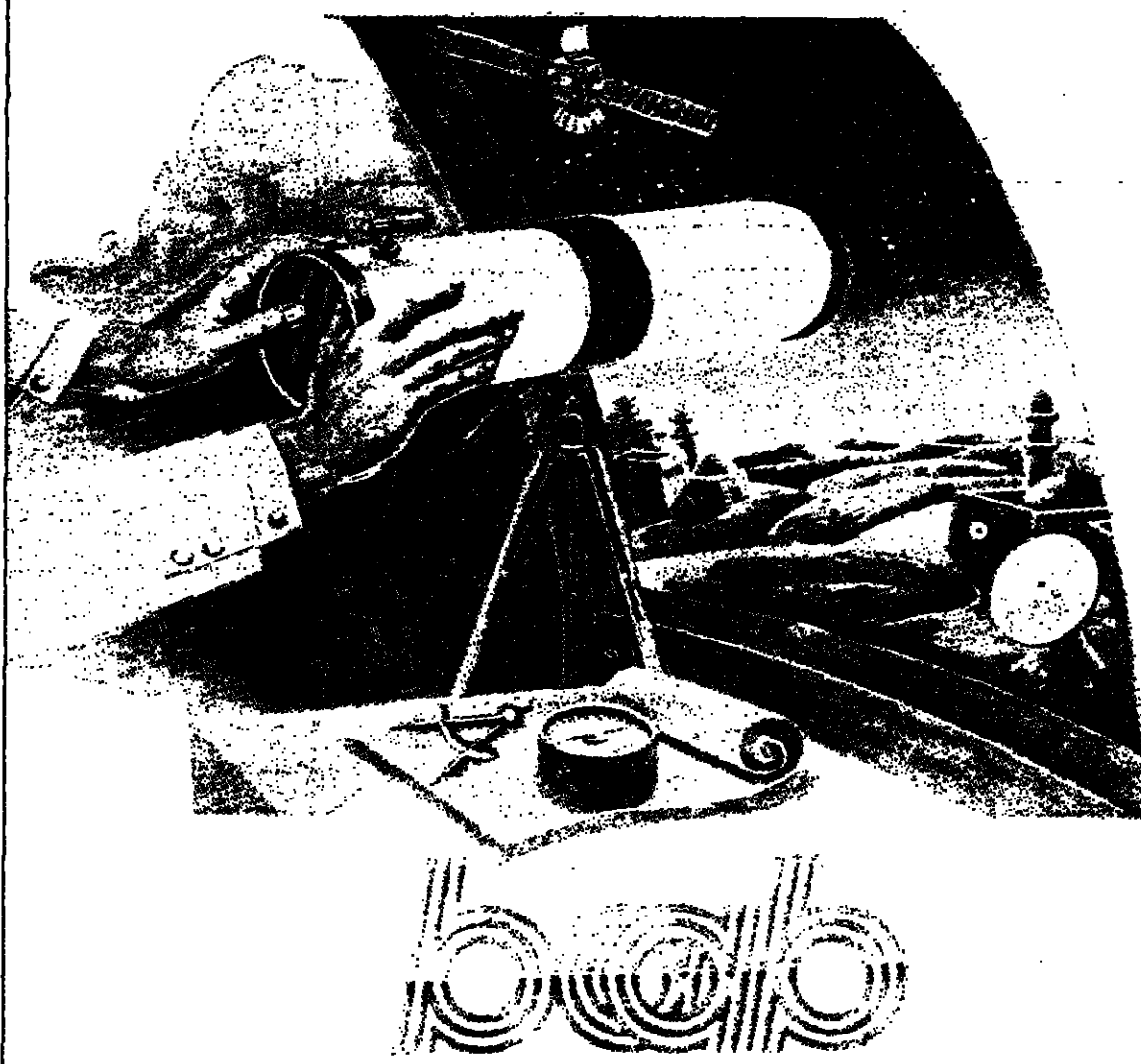
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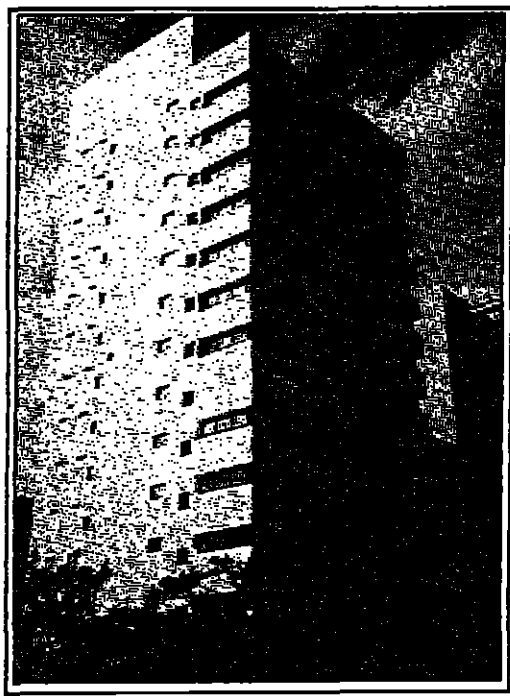
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Consolidated Balance Sheet

31 December

	1984 US\$ (000)	1983 US\$ (000)
Assets		
Cash and short term funds	225,309	277,791
Other deposits with banks	125,331	48,764
Certificates of deposit	43,000	1,000
Commercial loans and advances	205,673	142,765
Fixed assets	1,301	1,855
Accrued interest and other assets	12,283	6,508
Total assets	612,897	478,683
Liabilities		
Deposits from customers	13,059	876
Deposits from banks	533,981	418,194
Minority interest	55	73
Proposed dividend	2,000	2,000
Accrued interest and other liabilities	9,204	4,154
Total liabilities	558,299	425,297
Shareholders' Equity		
Share capital	50,000	50,000
Statutory reserve	860	539
General reserve	3,500	2,750
Retained earnings	238	97
Total shareholders' equity	54,598	53,386
Total liabilities and shareholders' equity	612,897	478,683

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Special niche in the market

INVESTMENT BANKING has become a buzzword in the Bahrain market since the scope for profitable commercial and merchant banking has narrowed. But few of the Offshore Banking Units (OBUs) now moving in this direction have put as much time and effort into planning their strategy and building a corporate identity as Arabian Investment Banking Corporation (Investcorp).

Unlike Trans-Arabian Investment Bank (TAIB), which recently added a trade finance house in New York (Creditcorp International) to its finance and real estate subsidiaries in Geneva and Florida, Investcorp does not manage syndicated loans, arrange construction finance or issue guarantees and letters of credit.

It is purely a financial intermediary, and its special niche in the market is the acquisition, packaging and placement of real estate and direct international investments with a three to five year horizon.

Quality is a word Investcorp uses a lot, whether it is talking about investment opportunities, management or clients. No expense has been spared to ensure that quality oozes from the wood-paneled walls of its Bahrain headquarters and the glossy pages of its corporate reports.

Investcorp

MARY FRINGS

The minimum subscription to Investcorp's latest investment offer is \$100,000, because in the words of Naim Kirdar, the Iraqi-born president and chief executive, "we don't want to be too retail."

On the same basis \$500,000 is the smallest term deposit that its dealers will place on behalf of clients, although eight mutual funds will be launched shortly to accommodate investments in multiples of \$50,000.

Its advisory and financial packaging services do not come cheap either, and Investcorp recently lost out to Gulf International Bank and Chase in bidding to carry out the privatisation of Gulf Air, before privatisation.

The handful of deals which Investcorp has done over the past two and a half years add up to \$350m, of which \$300m has so far been sold. Each one has involved painstaking preparation in consultation with international investment houses, tax advisers, appraisers and industry analysts, and exhaustive documentation.

Although Kirdar is clearly the motive force, last year's \$11m profit (representing a 20.5 per cent return on average equity) was the result of a team effort. Every decision is a corporate decision, and every potential customer receives his private placement memorandum from one of the 12 executive managers personally.

The \$135.5m leveraged buyout of Tiffany and Co., the New York jeweller, was closed last October. By last month, the building on Fifth Avenue had been sold to an undisclosed European buyer and leased back to Tiffany for 35 years; the entire \$75m of senior debt and half (\$12m) of the subordinated debt had been placed with General Electric Credit Corporation of the U.S.; and the 45 per cent of equity reserved for U.S. investors had been taken up.

Investcorp will retain up to 10 per cent of the equity for its own account, and will market the remaining international placements in the fourth quarter of this year.

Meanwhile a subscription offer for a \$36m equity interest in the luxury powerboat industry is already on the table, backed by an 84-page private placement memorandum with a payback projection (on a conservative case basis) of five and a half years. This follows last year's acquisition in partnership with a Whitaker affiliate of Whitaker Corporation's Kettenburg Marine and Bertram, Trojan and Riva Yacht divisions.

Kirdar describes 1985 as "very busy. We have a lot of balls in the air." He says the fact that Investcorp has not offered international investors or its own 335 founders shareholders around the Gulf anything in the Arab World is not for want of trying. "It has to make sense to us, within our criteria."

Another untapped area so far is the Islamic banking system, which is awash with funds for which the banks cannot find acceptable outlets, untainted by "riba" (usury or interest). An additional problem is that Islamic banks want short-term liquid assets while Investcorp is more at home with medium-term products. But they are working on it.

BAHRAIN 4

Offshore investment companies in decline

Exempt companies

MARY FRINGS

THE BEST thing Bahrain could do with its Exempt Company (EC) regulations is to amend them, to permit the registration of shell holding companies, captive insurance companies and flags of convenience. There is no reason why Bahrain should not become the Luxembourg, Caymans or Panama of the Gulf.

This would substantially boost the U.S.\$2m to 2.5m in offshore company fees which the Ministry of Commerce collects annually, and would give legal recognition to a situation which to a minor extent already exists.

The requirements to maintain a fully-staffed head office in Bahrain has proved to be unenforceable, both in the case of publicly-quoted investment and insurance companies controlled from Kuwait, and of some closed companies operating in Saudi Arabia. Others are dormant, as business has failed to materialise, or consist of one man working from his home.

In principle, however, the ministry dislikes the tax-haven label and is unwilling to abandon its prohibition of "brass-plate" companies, despite the urgent need to increase non-oil revenues from every available source. Recent requests for new companies to be registered and operated through a local solicitor or auditor have been turned down.

The EC regulations were introduced at the end of 1977, two years after the launch of the offshore banking concept, to enable trading and service companies with business in the region to be incorporated in Bahrain, provided they did not compete in the local market.

There are some grey areas in this respect and the propensity of EC banks to put up buildings and seek to let surplus space has incensed local property owners.

The "exemption" is from the provisions of the Commercial Companies Law, which require majority Bahraini ownership or in the case of foreign branches, local sponsorship. The attractions are freedom from taxation, proximity to the Saudi market, good communications and a relaxed lifestyle—against which must be set the high cost of living and the rigours of the Gulf summer.

By the end of last month a total of 182 ECs had been registered, of which 21 have gone into voluntary liquidation. Among these was Citicorp.

International (Middle East), which was set up five years ago to exploit a regional bond market which never developed. Citicorp has now replaced it with a regional representative office for its investment bank.

The newcomers this year are Al Khaleeja Insurance and Reinsurance Brokerage Company, with 30 Gulf (mainly Saudi) shareholders in the paid-up capital of \$23m; Gulf Development Corporation (general contracting and trade); Marubeni Bahrain (marketing, advertising and management consultancy services); Gulf International Insurance Bahrain majority-owned by an Ajman (UAE) insurance company, with capital of BD 1,025m (\$2.7m); Petrecoor, which has the minimum capital of BD 20,000 and offers management and consulting services to the oil and manufacturing industries; Schlumberger Gulf Services, for the sale and hire of oil industry-related equipment; two new subsidiaries for Gulf Consolidated Services and Industries (GCSI), and Indeco, an industrial and development consultancy owned by the BAII banking group.

Disaster

There are 10 more applications pending, including three new insurance companies to join the 20 already established. But no applications are being considered for the establishment of more public shareholding companies. Those already in existence are enough of a disaster story, although it is a Kuwaiti disaster rather than a Bahraini one (except for those unfortunate investors who bought shares in them).

The six companies listed are not the only ones who speculated in shares, but they incurred the heaviest losses following successive write-offs on post-dated cheques and value of investments.

Al Jazira, which has not yet published its 1984 results, does have a contracting operation but it is hard to see it competing successfully for the dwindling number of new construction contracts now available. It recently completed a sub-contract on the pelletising plant built in Bahrain by the affiliated Arab Iron and Steel Company EC, and in 1983 it declared a \$18m loss on its involvement with the Abu Ghraib irrigation project in Iraq.

The others have no business, although apart from Gulf Investment Company their remaining assets are substantially liquid. Pearl, for example, has 94 per cent of current assets in cash and bank deposits.

In all, there are 14 EC public shareholding companies, if one includes Bahrain International Investment Centre, which is legally a closed company but has so many shareholders its shares are quoted—another infraction of the law which seems to be winked at.

Among them only one, the Arabian Investment Banking Corporation (Investcorp), showed a healthy profit from operations. Bahrain International Bank (BIB) made just as much money (\$11m), but this was earned principally by placing its \$180m of paid-up capital on deposit, while Bahrain Middle East Bank (BMB) earned only \$762,000 after provisions.

All the rest made losses, adding up to a staggering \$265m. The losers included Bahrain International Investment Centre \$27m, Gulf Union Insurance \$27m, Arab International Insurance \$2.8m, AISCO \$7.2m, United Gulf Bank \$5.4m and Gulf Consolidated Company for Services and Industries—GCSI—\$32.3m.

The report on GCSI from auditors Ernst & Whinney carries no fewer than five qualifications, relating to the recoverability of a \$29m investment in an Ajman oil concession, together with \$7.1m in receivables; the use of \$14m in company funds to repay a loan to a director in contravention of the Bahrain Company Law; and a reservation on the preparation of the financial statements on a "going concern" basis, pending the availability of adequate financial support.

Interestingly, the auditors also state that a charge of \$33m in provisions directly against shareholders funds is "not in accordance with accepted accounting principles, which would charge this amount against income for the year," although they made no such comment on a similar move by a locally-incorporated QBU, Al Bahrain Arab African Bank (ALBAAB).

Although GCSI has a potentially rewarding contract from the Indian state of Uttar Pradesh, to manage a joint-venture fertiliser plant, the plant is not built yet and the company's best immediate prospect seems to lie in a merger with a partner in Ajman—or with a major oil strike there. The profitable disposal of a second-hand petrochemical plant in Puerto Rico seems questionable.

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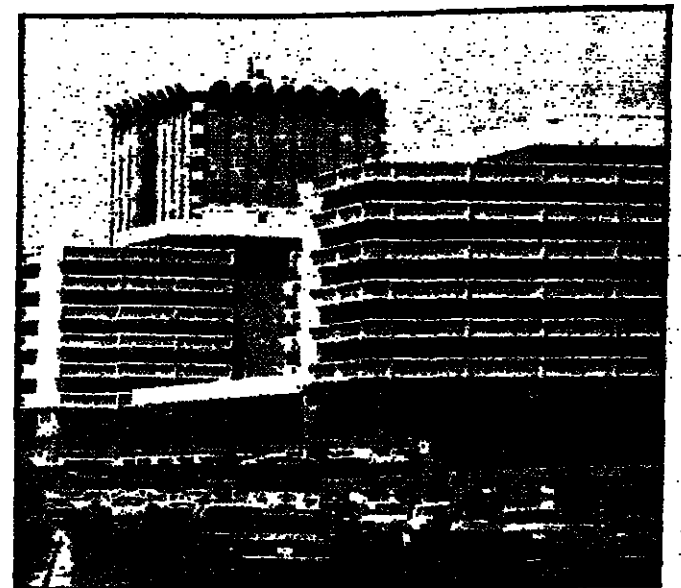
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Record low

The share prices of all these companies are at a record low on the Bahrain stockmarket—as indeed are those of much more solid domestic companies. Trading is very thin and Bank of Bahrain & Kuwait (BBK) shares, which once sold at BD 35-50 in forward deals have recently changed hands at between BD 2 and BD 2.600, although it should be noted that successive bonus issues have diluted their value.

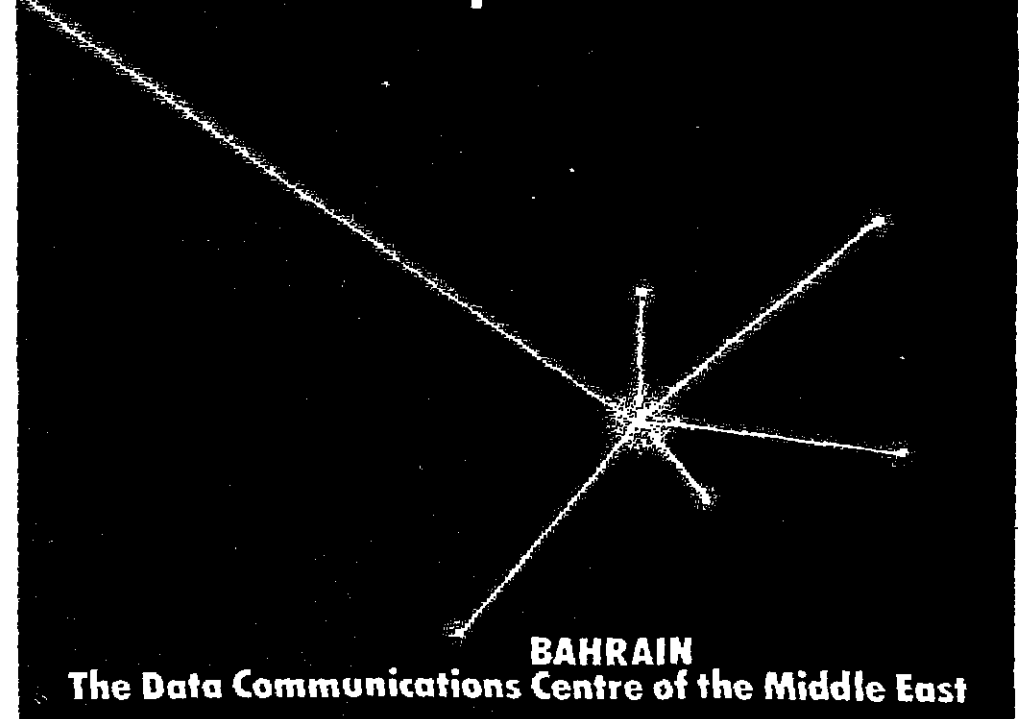
The establishment of a formal stock exchange in Bahrain, listing initially only domestic companies and ECs, has been under preparation for more than two years, and a report on its final stages was made to the Prime Minister last month.

If it gets the go-ahead now, it could be in operation as an independent corporation by the end of the year—but it remains to be seen whether it will restore investor confidence sufficiently to inject some life into secondary trading and promote the success of new issues.



Bahrain's capital, Manama, where many of the offshore investment companies have offices.

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The vital link

BAHRAIN 5

The sector is adjusting to a rapidly changing market

Tremors and shocks

Offshore Banking

MARY FRINGS

NO BANK has collapsed in Bahrain, or had its licence revoked. Not many financial centres around the world can say as much.

But the first-ever distress sale of a Bahrain offshore Banking Unit (OBU) when Arab Asian Bank was taken over in April by a minority shareholder, was a shock to the local banking community. Puzzlement followed, as the detention of its chief executive, Hussain Najadi, dragged into months without formal charges being laid.

Then came another shock, when United Gulf Bank, also an OBU, let select groups of bankers know that as it would be concentrating on investment activities in future, it planned to run down its loan portfolio, release up to half its 77 staff and put its still uncompleted building up for sale.

Coming on top of a general malaise over the prospects of the oil market, political turbulence in the Middle East, and the build-up of bad debt, these two events caused a number of bankers to question the viability of their own operation.

Departure

They may even have wondered, as they added Security Pacific to the departure list and Barclays joined Midland in closing its dealing room, whether Bahrain as a banking centre was going down the drain.

The governor of the Bahrain Monetary Agency (central bank), Mr Abdullah Saif, says banks have to obtain an economic return wherever they are based, and retrenchment is superimposed by the business environment. He is confident that Bahrain has a useful long-term role to play, both as a regional centre and as a link in a global operation.

He comments: "There is still a good basic operation here, but the market is changing rapidly. Successful bank management must be innovative in extending the range and quality of services, making use of new technology, and finding new vehicles to facilitate the flow of funds between lenders and borrowers. And we, as a supervisory authority, have to look at the prudential requirements."

The debt problem, he points out, is nothing new: two years

ago the concern was over concentration of risk, now it is over quality. This calls for a joint review of provisioning policy by supervisors and auditors and management to ensure that banks build up adequate protection, even if that is achieved in some cases at the expense of profits.

The governor said the BMA had a legal responsibility towards depositors and shareholders of its dinar-based local banks and a moral obligation to ensure that all banks in Bahrain were prudently and professionally run. "In a crisis, the action taken would depend on the nature of the problem, but prevention is better than cure."

A new departure for the BMA is the assumption of a degree of responsibility for the soundness and liquidity of branches of foreign banks, since they are a major component of the offshore market. After further consultation with the Bahrain Bankers Society, branches will be required to submit regular prudential information returns from the end of the year. The returns include a list of the largest bank and non-bank exposures.

At the same time, the BMA wishes to be seen to be fully responsible for its own offshore operations, with the help of the host authorities. Over the past two months, senior staff members have travelled to London, Switzerland, Hong Kong and Singapore to make courtesy calls on central banks and to visit branches, subsidiaries and affiliates of Bahrain-based banks to ensure the proper controls are in place.

At home, the BMA is agreeing individual lending limits with locally-incorporated banks, and the time scales for prudential information returns. This follows the formal introduction in January of legal limits amounting to 15 per cent of capital and reserves for loans to single borrowers and related parties, and to 10 per cent of capital and reserves for loans to banks' board of directors collectively.

Following applications from United Gulf Bank and Kuwait Asia Bank for permission to separate their banking and investment activities, consideration is being given to the creation of bank holding companies as a suitable structure for banks with a number of subsidiaries. This could result in a new type of licence, another possibility is the establishment of unit trusts and mutual funds, to encourage the growth of a capital market.

Only a handful of banks, led by Arab Banking Corporation (ABC), Gulf International Bank

(GIB) and the Arab Investment Company (TAIC) are active bond traders, and local new issues are few. Last year two revolving Euronote facilities were brought out for Saudi corporate borrowers, Algasal and Bin Laden, and ABC issued a 12-year U.S.\$100m floating rate in its own name.

Doorstep

ABC's aggressive move on to the doorstep of China brings its tally of direct and indirect subsidiaries to 14, among which Banco Atlantico de Spain has 184 domestic branches, a New York agency, a Grand Cayman branch and eight representative offices in the western hemisphere.

On its own account, ABC has five branches, four rep offices and four affiliates. The whole empire has been built up in under five years.

At least two OBUs are following the same route, on a more modest scale. Mr Katch Kachadurian of the three-year-old Bahrain Middle East (BME) has started his portfolio with 40 per cent of a small Swiss bank and with the help of Morgan Stanley is now finalising the purchase of a U.S. subsidiary, which will bring him expertise in futures, commodities and fiduciary services. Kuwait Asia bank, which recently reduced its head office and foreign exchange activity, has investments in Hong Kong, Korea, the Philippines, Japan and New Zealand, and is opening a merchant bank in Melbourne.

If GIB seems timid in comparison, conservatism is part of its character as the "international bank of the seven Gulf states." Mr John Porter, an assistant general manager, comments that "our general low-risk, low-reward policy proves at this time to be very apt," and another banker who describes the market as being in "a storm-job situation" clearly agrees.

GIB had a satisfactory first half and expects to maintain its U.S.\$76m asset level with profits 5 per cent up at year-end. Although its syndications team was redeployed last year, GIB has still managed to obtain a U.S.\$1.5bn facility for the Kingdom of Sweden.

"A change of strategy" was

responsible for the release of five people at GIB's New York branch. With a smile, Mr Porter explains: "We want it to be a real New York branch before it tries to take on the whole United States."

After the Arab banks, the U.S. banks carry the most weight in the OBU market. Apart from Security Pacific and Continental Illinois, the only departures have been those of one-man representative offices, although a number of OBUs have pared down their operations.

The British banks too are slimming down and holding on in the hope of a new boom in three-five years' time. Barclays officially closed its dealing room on July 11 and will reduce manpower by a third.

Midland took similar steps earlier in the year, as part of its global rationalisation, but it is opening a new representative office for M&G International Trade Services. This will specialise in export finance and credit risk insurance, with guarantee support from Lloyd's of London where cheaper ECGD or similar backing is not available. Lloyds and NatWest continue dealing, and economising, although both have substantial corporate business in the region.

One concern is that if more banks scale down their dealing operations, six moneybrokers in the market could become too many. Brokerage earned in 1984 was slightly down on the previous year, at U.S\$14.50m, and well down on the U.S\$16.36m earned in 1982, before an adjustment in agreed rates. New volume discounts on foreign exchange transactions were introduced in April this year, with considerably less acrimony than over the previous change (September 1983).

In the last analysis there are still 74 OBUs reporting to the BMA and assets have held up remarkably well around the U.S.\$600m level. The latest figure (for April) was U.S\$617m. What gives the market its basic stability is the presence of ABC and GIB (who between them hold nearly one third of the assets), and banks such as Citibank with a long-standing commitment to the region.

This is not to say the assets may not fail. As the BMA Governor points out, the figures take no account of off-balance sheet trade financing and fee-earning business which more and more banks are trying to obtain as a replacement for syndicated lending.

A gradual decline in assets—if it does occur—might therefore reflect successful diversification rather than impending disaster.

Locally-incorporated Bahrain OBUs

(Ranked by size of assets at December 31 1984 in U.S.\$m)
(Does not include investment banks, or the OBUs of local commercial banks)

	Assets ex contra	Total equity	Net profit (loss)	Reported pro- visions
Arab Banking Corporation	11,055	1,114	110.0	45.0
Gulf International Bank	7,419	580	63.9	n.a.
ARABANK International	1,853	245	20.0	11.1
ALBAAB	1,370	129*	15.8	7
Gulf Riyad Bank	1,186	61*	5.1	3.5
United Gulf Bank	1,176	246	(5.4)	20.7
ALURAF Arab Intnl Bank	613	55	3.2	2.0
Arab Asian Bank (1983 assets \$605m 1984 not available)				
Kuwait Asia Bank	574	121	5.3	2.8
BAH (M.E.)	475	25	2.7	n.a.
Bahrain M.E. Bank	446	157	0.7	3.0
European Arab Bank (M.E.)	377	15	0.3	n.a.
Bahrain International Bank	294	198	11.0	6.4
Masraf Faisal Al Islami	256	24	2.6	—
Frah-Bank (M.E.)	247	14	0.6	1.2

* Plus \$30m subordinated loan with \$50m of new capital to be subscribed in 1985.
† In addition to undisclosed specific charges against income, \$17m was transferred from the general reserve to loan loss provision.
‡ Includes SR 85m subordinated loan on which interest is paid at market rates.

Compiled by Mary Frings.



Gulf International Bank's head office in Manama.

Insurance upturn expected

Arig

MARY FRINGS

THE ISLAND of Bahrain is still a very small dot on the world insurance map, even though it plays host to the heavily capitalised international re-insurance group ARIG, and to nearly 40 other underwriting companies, brokers and agents.

As more offshore companies come in, and the insurance law which is now in the final stages of preparation is implemented, Bahrain could have a significant role to play as a regional insurance centre, although take-off is unlikely to be as spectacular as it was in the early days of offshore banking. If the growth curve is flatter perhaps it might be longer.

For direct insurers, the most obvious prospect is the Saudi market where the concept of insurance is not officially recognised and no commercial framework exists for the local registration of underwriters and agents. But many adventurers have lost their shirts in Saudi

Arabia, and establishing a viable operation from offshore requires a high degree of both local knowledge and technical expertise.

There is also the possibility, albeit a distant one, that the shutters will come down on those companies which are not 100 per cent Saudi-owned.

Onshore, the potential for expansion is limited. Gross premium income in 1983, according to Bahrain's Ministry of Commerce, amounted to only \$58m, and the figure is unlikely to have grown in 1984.

There are 18 insurance companies operating in Bahrain's domestic market, but three-quarters of the gross premiums are collected by the five "nationals" which are incorporated locally. These five have a monopoly on government-related business, even though their retentions may be minimal.

The privilege is jealously guarded, and Bahrain Kuwait Insurance Company complained bitterly in its 1984 report about "master-minds in offshore broking offices and exempt companies" who seemed to be knocking in.

Last year was clearly a trying one, because of "harmful

irresponsible rate-cutting" and difficulties in obtaining re-insurance cover in unprofitable motor lines. Four of the five locally-incorporated companies managed to show a positive result overall, but Al Ahlia, which still had to publish its results at the time of writing, was expected to show a substantial loss.

Watchful eye

Pending the application of the insurance law, little is known of the activities of the closed offshore companies; but the Ministry of Commerce is beginning to keep a watchful eye on Gulf Union and Arab International Insurance, whose shares are publicly quoted.

As a re-insurer, Arab Insurance Group (ARIG) is in a very different class. It was set up four years ago by the governments of Kuwait, Libya and the United Arab Emirates (UAE) with a brief to increase Arab participation in the global market, and endowed with an authorised capital of \$3bn. Even though it is only 5 per cent paid up, it is still a tidy sum, which ARIG has used with circumspection.

In the period covered by the

1984 report, just over 35 per cent of ARIG's business was drawn from the Arab world, 20 per cent from Asia, 15 per cent from Europe and 13 per cent from North America. Gross premiums increased by 10.7 per cent to \$98.4m, of which \$63.6m was retained, but net income fell sharply from \$12.7m to \$2.9m.

The deterioration in performance was attributed to increased underwriting losses (from \$3.5m to \$7.6m), related to treaty business in property and marine lines, and to lower investment income (from \$26.7m to \$20.1m).

However, the leadership vacuum has now been filled with the appointment of Nooruddin A. Nooruddin, a former banker, as general manager, and the directors say in their report that ARIG enters 1985 with more confidence.

"A stronger management structure is in place and better technical capabilities have been acquired. This, coupled with an expected improvement in market conditions, should make it possible for the company to achieve better results."

Quest for quality business

Domestic Banking

MARY FRINGS

BALANCE-SHEET growth has always been a cause for congratulation in Bahrain's offshore commercial banking community. But perceptions are changing and bigger is not necessarily better in an economic climate described in annual reports either as dull, constrained, difficult or "challenging."

According to Mr Hassan Juma, general manager of National Bank of Bahrain (NBB): "If a bank can reduce its portfolio without affecting profitability, that is an achievement."

So he is happy with a consolidated interim result which shows a 51 per cent decrease in total assets to BD 604m (\$1.6bn) and an 8 per cent increase in net profit to BD 5.7m. Loan loss provisions are charged against income only at year-end.

Loans, advances and overdrafts were reduced by 13 per cent, which together with a useful 84 per cent increase in current saving and deposit accounts enabled NBB to cut its inter-bank borrowings by 14 per cent. But a less satisfactory development was a recession-induced 31 per cent drop in off-balance-sheet letters of credit and guarantee business.

Because of its Kuwaiti branch operation, which is understood to represent close to one third of its consolidated assets of over \$2bn, the joint-venture bank of Bahrain and Kuwait (BKB) has been unable to get its mid-85 results out so promptly.

Although both BKB and its 49 per cent government-owned rival have an offshore banking licence in addition to their Full Commercial Bank (FCB) licence, in neither case is the OBU run as a separate unit. NBB has a small and admittedly struggling branch in Abu Dhabi, while BKB's last annual report seems to take the line that the least said about its Kuwait branch the better.

Fortunately BKB is a strong and well-capitalised financial institution with ample reserves, since inevitably it is more heavily exposed than other FCBs to Kuwait and its bad debt problems, many of which remain un-

resolved nearly three years after the stock market crash. It is certainly not the only bank to have lent money to investors to buy shares, and to have taken those now far less valuable shares as collateral. Or to have on its books merchants, contractors and property-owners who, because of the downturn in trade and construction activity and a 25-50 per cent drop in rents, can no longer service their loans at the same rate.

Given some of the biggest local companies are illiquid, because their main assets are offshore and everything they have in Bahrain belongs to the banks. The five locally-incorporated commercial banks—including Grindlays Bahrain and the newly-operational Bahraini-Saudi Bank, as well as third-ranking Al Ahli Commercial, are all invited to tender on a competitive basis for government deposits. But NBB does have the advantage of holding current accounts for a number of government departments, in return for which it handles their monthly salary payments. The Government, insists Mr Juma, gives nothing away free.

Restructured

Grindlays Bahrain, which was restructured as a 60 per cent local bank in May last year, has not only gained access to these deposits but to government-related bonding, guarantee and LC business. Whereas foreign banks are not permitted to extend their branch network, Grindlays has already opened two new offices and plans to go ahead with more.

Bahraini-Saudi Bank, which opened only in February, is full of ideas for gaining a foothold in the market but is prepared for a long haul. One of its products is a life insurance-linked savings account for customers under 60 years of age who maintain a minimum balance of BD 1,000. It also pays 6 per cent interest.

BKB is publicising a high-earning "Money-Maker Account" to attract foreign currency deposits, but the bank's main new marketing thrust will be into India and Turkey, where it has obtained branch licences.

No one has yet emulated BME, which has installed Automatic Teller Machines (ATMs) at all its branches and achieved a 20 per cent increase in profit last year, although the first half of 1985 has been less encouraging.

Bahrain's domestic banks

Ranked by size of assets on December 31 1984
(in BDm (BD=\$2.65))

	Assets	Contras	Advances	Net profit (loss)†
National Bank of Bahrain*	369.9	205.2	178.2	10.3
Bank of Bahrain and Kuwait*	296.4	59.0	179.3	10.1
Al Ahli Commercial Bank	158.4	58.5	99.4	2.4
Standard Chartered*	136.6	38.2	70.8	1.8
British Bank of the ME*	101.6	26.9	73.0	2.3
United Bank	45.6	6.8	18.2	0.7
Bahrain Islamic Bank	42.9	4.3	20.7	3.0
Bahib Bank*	31.5	2.6	11.5	0.16
Bank Meili Iran	30.9	0.1	25.6	0.05
Grindlays Bahrain	30.5	22.3	12.9	0.21
Bahraini Saudi Bank†	21.8	—	—	1.5
Arab Bank*	20.8	4.6	6.5	0.1
Bank Paribas*	18.9	7.9	13.3	(0.9)
Citibank NA*	14.9	4.1	6.6	0.6
Algemene Bank Nederland*	13.5	1.5	6.5	0.09
National Bank of Abu Dhabi*	13.5	4.5	9.5	(1.1)
Bank Saderat Iran*	11.8	0.2	11.2	nil
Rafidain Bank	10.2	2.4	7.2	0.19
Bank du Caire	4.3	0.7	2.3	0.04
Chase Manhattan Bank*	2.9	43.1	1.3	0.37

* Does not include OBU or overseas branch.
† After provision for bad and doubtful debts.
‡ Not operational until 1985.

Source: Bahrain Monetary Agency.

Both BNME and Standard Chartered have a long history in Bahrain and a loyal customer base. It remains to be seen whether they will eventually lose market share to aggressive new local banks, but there is no sign of their following the route Grindlays has taken.

Higher costs

The local banks had 67 per cent of aggregate assets last year and 70 per cent of the contra business. Including Bahraini-Saudi Bank (which earned interest on its BD 20m of paid-in capital), they also accounted for 88 per cent of the profits—with Bahrain Islamic Bank ranking third in the earnings league because of low provisions and very modest operating costs. Al Ahli Bank's costs went up sharply as a result of its move to a new headquarters and heavy investment in technology.

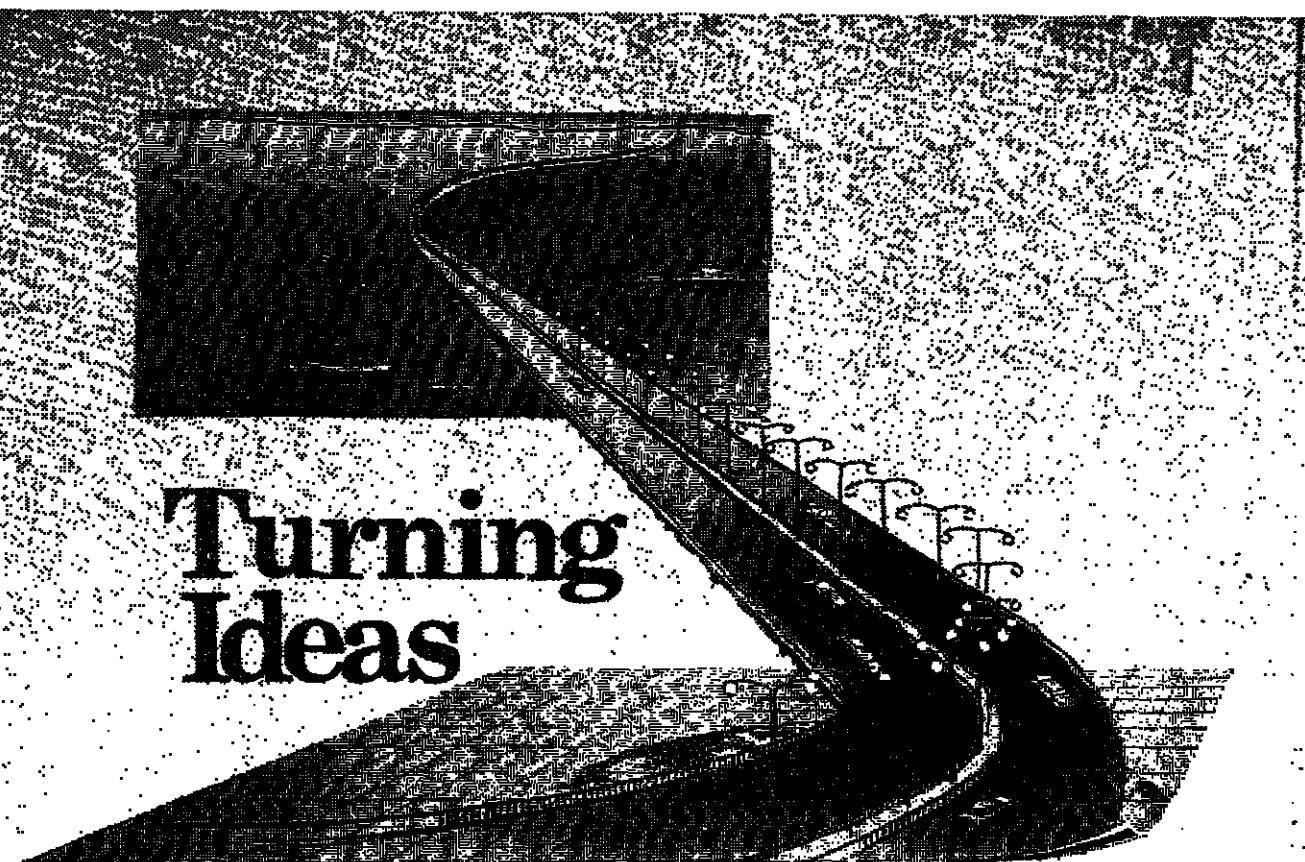
The remaining foreign banks in the market either serve their national communities or survive as appendages to a more important OBU. Paribas and National Bank of Abu Dhabi recorded

substantial deficits, not only because of loan loss provisions but because their branches cost more to run than they actually earned.

Among monetary developments affecting the domestic market this year was the inclusion of negotiable certificates of deposit in the Bahrain Monetary Agency's calculation of reserve requirements, which amount to 5 per cent of Bahraini Dinar deposits and 1 per cent of foreign currency deposits.

Maximum recommended deposit rates were reduced by 1 per cent on June 1, in line with the fall-off in dollar interest rates, and this was followed by a reduction in the prime lending rates which banks are required to display to the public. All major banks are now quoting 10-10½ per cent.

The BMA regards the local liquidity situation as quite good, and says the banks have not had recourse to its BD swap facility for the past three years. But the feeling in the market is that there has been "less money about" in the past three months.



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BAHRAIN 6



The 26 kilometre causeway is expected to open on National Day, in December

Terry Kirk

The link with Saudi Arabia

Mary Frings discusses the \$40m-a-mile road link and looks at its impact on Bahraini society and the economy

ON APRIL 11 this year, the last gap in the \$40m-a-mile road link between Bahrain and Saudi Arabia was bridged.

Before a large gathering of dignitaries on the Bahrain side of the median line, a gaily decorated box girder was swung into place, a red carpet was rolled out and Bahrain's Prime Minister walked across, accompanied by Mr Mohamed Abul-Khalil, the Saudi Finance Minister.

From the main span, still unprotected by balustrades and a vertiginous 28 metres above sea level, the Bahraini coastline merges into the dust haze but the huge desalination plant and high-rise office blocks on the Saudi shore look very close.

Since February, access to the site has been restricted in preparation for the link-up. There are no more jollies for wives, children and friends of supervisory staff, and no sight-seer gets through the security gate at Jasra without high-level official authorisation. Ballast Nedam has always run a "tight ship," with no alcohol allowed anywhere on the worksite or in the labour camp.

As far as the main causeway contract is concerned, there is a lot of work still to be done, but Mr Uffe Hansen, chief engineer for Saudi Danish Consultants, says the job is running below budget and ahead of time. Priority is being given to the border island facilities, which now include panoramic restaurant towers on either side.

Barring accidents, the opening ceremony will be held on Bahrain's National Day, December 16, rather than on the contractual completion date nearly five weeks later.

Although the causeway will be open for official traffic before the end of the year, it is not yet clear when private and commercial vehicles will be able to use it. Only the first phase of the feeder road system will be completed, and the border stations will not be ready for another four months.

It might be possible to set up temporary border stations, suggests Sheikh Ibrahim Abdulhalla Khalifa, the project co-ordinator for Bahrain's Ministry of Development and Industry, but that decision will be up to the governments on either side. A bi-lateral Causeway Authority to be responsible for operation and maintenance will be formed soon.

Bahrain's Cabinet has delegated a committee headed by the Minister of the Interior to look into all the security aspects, and customs and immigration officials are busy trying to work out how to carry out

all the normal border checks on vehicles, baggage and freight without causing a log-jam.

A Saudi official has estimated the time needed to pass through the two customs and immigration posts as a minimum of 90 minutes, but Mr Khalil Motawa, Bahrain's Director of Customs, says that on his side the aim is to expedite procedures so that vehicles do not stay longer than 15 minutes, depending on the volume of traffic.

The original feasibility study projected two-way traffic flow by 1990 of 30,000 cars a day, 2,037 light goods vehicles and 873 heavy trucks. Mr Motawa regards those figures as exaggerated, and is basing his studies on 250 vehicles an hour, rising to 500 at peak periods.

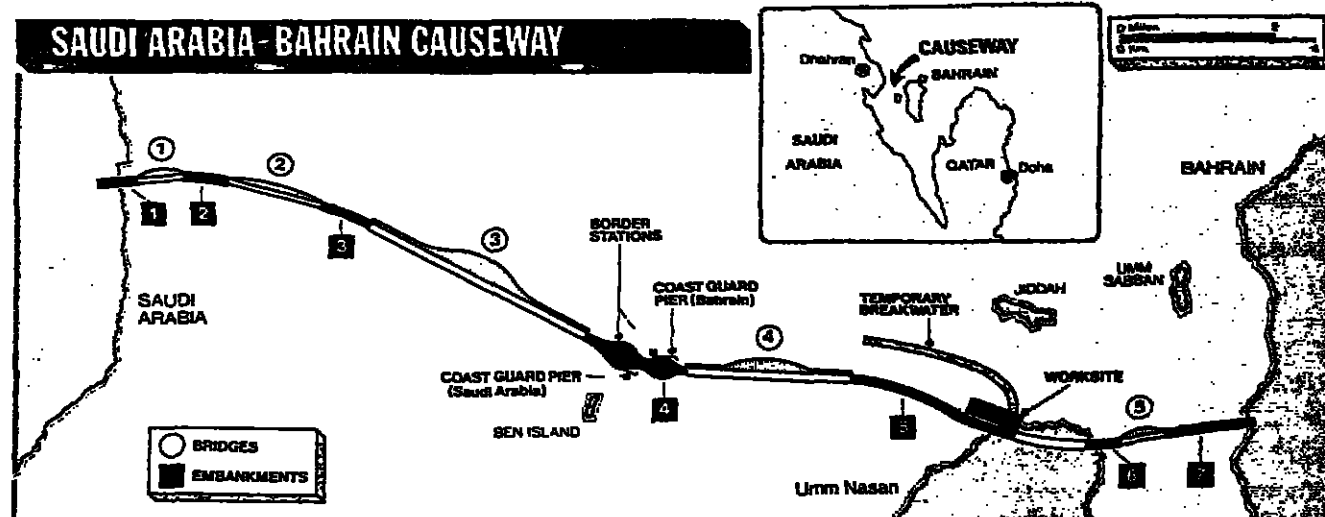
Some of the traffic might not cross the border at all, if toll charges are not prohibitive, it might become a popular outing to drive up to the island, spend the afternoon fishing, have a meal at a restaurant 56 metres above sea level, and turn around and come back.

"We have not ruled that out," says Mr Yousuf Shirawi, the Minister for Development and Industry. "We are making changes in the traffic flow system to allow a return before the boundary — after all, someone might forget his passport. But we will be guided by experience. We don't want to produce a cast-iron policy and get stuck with it."

Initially at least, cross-border travel will be restricted to citizens of the Gulf Co-operation Council (GCC) and expatriates with the requisite visas. The rules will be no different from those governing entry by sea or air.

Although some people in Bahrain hope that after a 6-12 month trial period, expatriates with residence permits may be allowed to drive across as freely as GCC citizens, with a simple passport inspection, the signs are that Saudi Arabia has no intention of relaxing its visa requirements.

The "park and ride" idea aimed at reducing both congestion and possible drunken driving on Bahrain's roads has been dropped. The laws against drinking and driving are "adequate," according to one government official, and flyovers on the 10 km of new or upgraded approach roads will ensure a smooth transfer into and out of town. Trucks and buses will drive a restricted route, but it is thought that the much improved internal road system will be able to handle the extra cars.



Project supervisor: Saudi-Danish Consultants (Al-Muhandis, Mizner, Kuntz, Christiani and Nielsen A/S, Kampax International). Client: Ministry of Finance, Saudi Arabia. Total cost of contracts 1-4: \$800m.

Contract 1 (causeway): Awarded in 1981 to Ballast Nedam Groep (BNG) on their alternative bridge design; completion January 20, 1986. Includes seven embankments (12.5km), five bridges (12.5km), and a 550,000 sq m island for the two border stations. Cost \$564m, raised to \$800m by various provisions.

Contract 2 (border stations): Awarded in August 1984 to BNG; completion April 28, 1986. Cost \$100m. A supplementary contract for tower restaurants (90m to the top of the flagpole) on each side was awarded on May 18, 1985, for completion October 17, 1986. The original contract covers 49 buildings for customs, immigration, health, civil defence, etc. plus two 230 cum a day desalination plants and two sewage treatment plants.

Contract 3 (Saudi approach roads): Awarded in April 1985 to Al Kharafi of Saudi Arabia; completion in 30 months. Includes 35km of motorway with seven interchanges.

Contract 4 (Bahrain approach roads): Awarded in April 1985 to BNG as sub-contractor for the bridges. Includes 10km of motorway with three interchanges.

The Causeway means Bahrain is no longer an island

THE ECONOMIC impact of the causeway gives rise to endless discussion but this is really a side-issue. Its primary purpose is to create a physical link with Saudi Arabia which will protect Bahrain from predators and guarantee the stability of the Khalifa regime.

Today, Bahrain has ceased to be an island, and if that fact involves some loss of independence, so be it. In the words of one senior Bahraini: "What independence did we have anyway?"

The idea of a life-line to Saudi Arabia was born just over 30 years ago during a visit to Bahrain of King Saud bin Abdul Aziz. It is significant that the Fifties were years of internal dissension, marked by conflicts between the Sunni and Shia communities, and a subsequent joining of forces to demand political reform.

The idea was revived at intervals, with the initiative coming first from one side, then from the other. The devout and conservative King Faisal is thought to have back-pedalled to some extent, fearing the moral erosion which might result from contact with a more liberal neighbour.

The first real progress was made in 1976 under King Khalid, and a committee was

formed to study the practicalities. The Iranian revolution and the spread of Islamic fundamentalism no doubt hurried things along.

It has been understood from the outset that Saudi Arabia would meet the entire cost, but there seems to be less likelihood now than there was a few years ago that "he who pays the piper will call the tune." There would be little point in banning alcohol in Bahrain when young Saudis can, and do, spend a much wilder long weekend in Bangkok, and when the inevitable result of such a move would be a thriving black market.

Political and sociological implications apart, the causeway will have a positive economic impact on Bahrain, and not just in terms of filling empty hotel rooms and finding tenants for rent-starved apartments. Many people, in fact, are coming to the conclusion that since the novelty value has worn off, the forecast flood of cars will become a trickle, and most business travellers will continue to use the "air bridge."

Firstly, it will boost Bahrain's export trade, which already exceeds the value of non-oil imports from Saudi Arabia. Aluminium cable and extruded section, for

example, can be delivered more cheaply and efficiently by road.

Secondly, it will open up employment possibilities in the Eastern Province industrial zones, since finding jobs for Bahrain's educated young is going to be one of the big challenges of the future.

Thirdly, it will give Bahraini traders access to a bigger market and encourage healthy competition. Already the Chambers of Commerce on either side have looked into the possibility of recognised agents making joint purchases from manufacturers of cars, appliances and food products.

The early outcry from sugarcane farmers, fearing loss of business or a serious squeeze on profit margins seems to have died down. In the recession, profit margins have fallen anyway, and Bahrainis are unlikely to make regular trips across the causeway just to shop at a supermarket. They might be able to buy videos and electronic goods more cheaply in Saudi Arabia, where import duty is only 4 per cent—but imported goods are not covered by Gulf Customs. Market predictions by the time the buyer had paid another 10 per cent in duty at the Bahrain customs check-point, he would not have much of a bargain.

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Zallaq project

MARY FRINGS

IT TAKES confidence to put a \$170-\$180m price-tag on a Gulf leisure development in these troubled times, and confidence in the viability of an expensive tourist resort on a two-and-a-half mile strip of Bahrain's west coast seems to be less than exuberant in business and government circles.

As a concept, the Zallaq project has everything: a luxury hotel complex on a man-made island, beach villas, chalets and condominiums, a marina with catering and boat maintenance facilities, swimming pools, tennis courts, health club, beauty parlour, children's zoo, aviary, aquarium, funfair and theme park, plus lots of greenery and flowing water.

Possibly an air-conditioned monorail to carry guests from one resort area to another, or as far as the neighbouring Al Areen Wildlife Sanctuary.

Although the sea is shallow for some distance offshore, the dredging of land-fill to create the island and breakwaters would cut a channel for the approach of sizeable yachts.

Disneyworld

Even the project's harshest critics concede that an Arab version of Disneyworld would be popular locally, although the promoters are rather pained by references to anything so intrinsically American. They prefer to call their theme park a Heritage Park, where visitors can meet characters such as Haroun Al Rashid and Sindabad instead of Mickey Mouse and Donald Duck.

The critics also concede the need for a private beach where families can relax in pleasant surroundings, since none of the hotels has one. But they question whether it makes sense to build another five-star hotel, when the Hilton, Sheraton, Regency Intercontinental, Gulf, Ramada, Holiday Inn, TFF Diplomat and Delmon are all struggling for business. At weekends, it is the more moderately priced hotels which are comparatively crowded.

The weekend tourism pattern, and the habit of visiting businessmen of staying no more than one night, is a major problem facing the newly-formed Supreme Council for Tourism,

headed by Mr Tariq Almoayed, the Minister of Information.

His first priority is to "sell" Bahrain to the Gulf holiday-maker, especially in the prevailing climate of insecurity about international travel. More than 154,000 Gulf nationals came to Bahrain "for tourism" last year, and Mr Almoayed believes the number will multiply once whole families can be packed into cars and driven across the Saudi-Bahrain causeway.

Efforts to attract transit passengers through Bahrain Airport for two-to-three day stopovers (with hotel packages averaging \$50 a day), have brought in only a trickle of trade, and international package tours are rare indeed. The truth is that there is not a lot to come for, apart from hotel entertainments and swimming pools, a stroll around the colourful suq area and a trip in a dhow, although the Ministry of Information is working hard to create more.

It has already opened a small

but fascinating exhibition of scenes of traditional life and historical photographs in the restored Law Courts building, but unfortunately the exhibition is not well patronised. A new art gallery and museum complex is being built at a cost of \$35m, and old forts and houses are being preserved.

Theme park

Local people would undoubtedly flock in much greater numbers to Zallaq's funfair and theme park, but to ensure profitability the project is thought to need a hotel and 120,000 staying guests a year, for a minimum of three room-nights.

Given the high cost of air travel and Bahrain's fairly restrictive immigration policy, Disneyworld, Zallaq, is unlikely to rate very highly with international tour operators who are also offering Disneyworld, Florida. So its success seems to hang on being able to sell enough room-nights to those elusive transit passengers, and

above all to families around the Gulf.

No further steps will be taken until the Cabinet gives its blessing, even though no government investment is involved. The Cabinet could accept or reject the whole concept, or approve only a phased development, which would mean building the theme park and leisure centre, and postponing the hotel and marina.

In that case there might have to be a rethink on the financing scheme, but under the original plan at least one third of the project should come from equity and the rest from commercial loans.

The development company's financial consultant, Dr Wolfgang Fahrenkamp, is under- stood to be in discussion with three international banks who will guarantee to arrange a loan package if equity contributions reach at least BD 20m (\$53p).

Pending government approval, a private placement memorandum is under preparation for issue in August.

Facts and figures about Zallaq

Zallaq Tourism and Development Company (authorised formation):

Authorised capital: BD 40m (\$106m) of which BD 500,000 issued and paid up.

Founding shareholders: Unitrac WLL, Transitec Gulf WLL (both members of the Unitag Group) and Projects SA. Local and international investors will be invited to participate.

Object: the founding shareholders were given exclusive rights to form a development company for a resort project in Bahrain, and a 35-year lease on a 4km strip of foreshore owned by the Central Municipal Council.

Chairman: Sheikh Ebrahim bin Rashid Al Khalifa, member of Bahrain's ruling family and chairman of Projects Group. Also vice-chairman of two locally-incorporated banks.

Vice-chairman: Mr Mohamed Zubari, a director of Unitag Group (in which there are Bahraini family interests). Project manager: Alistair McCowan & Partners, consulting engineers. A Division of Allison & Hutchinson & Partners of Edinburgh.

Financial co-ordinator: Dr Wolfgang Fahrenkamp, a Munich investment consultant.

Managing and general contractor: Tarmac Overseas Ltd of UK in joint venture with Bahraini contractor Abdullah A. Nasser.

Bahraini contractor Abdullah A. Nasser will take a 7.5 per cent equity stake in the development company.

Estimated construction period: three years.

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